S. HRG. 101-103

RURAL DEVELOPMENT ISSUES

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

AND THE

SUBCOMMITTEE ON RURAL DEVELOPMENT AND
RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

THE BIPARTISAN EFFORT TO ADDRESS THE NEEDS OF RURAL AMERICA

APRIL 5, 1989; MAY 11 AND 16, 1989

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RURAL DEVELOPMENT ISSUES

WEDNESDAY, APRIL 5, 1989

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:12 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Heflin, Harkin, Conrad, Daschle, Baucus, Kerrey, Lugar, and Cochran.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good morning.

Today's hearing begins a Senate-wide bipartisan effort to address the needs of rural America. This committee will be leading this effort because it is the spokesman for all of rural America—for the 10 percent who work on farms—and for the 90 percent who do not.

Last month, the Senate leaders, Senator Mitchell and Senator Dole, announced the formation of a Rural Development Task Force. I hope this task force will foster the passage of legislation not only in this committee, but in the Committees on Small Business, Environment and Public Works, Finance, Banking, and others.

Because of declining opportunities and diminishing attention from the Federal Government, 1.4 million people gave up on rural living between 1985 and 1987, many of them young, better educated rural Americans looking for higher wages and more opportunities in the cities. I believe that many of those people would have preferred to remain at home in rural America.

There is a quality of life to rural living—as I know well from my own home town in Vermont—that is very different from urban life. There is a pace, a friendliness among neighbors and a system of values which seems to me often hard to find in urban settings.

But quality of life will not put groceries on the table or pay the mortgage; it doesn't educate your children. If rural Americans are going to stay in rural America they will need jobs. New jobs, new economic opportunities is what this whole rural development initiative is all about.

In these times of high Federal deficits, we need to make sure we get the most out of our Federal dollars, and I think that this can be done, again, with a minimum of Federal investment.

Where there are Federal networks already in place, such as the Rural Electrification Administration (REA) and the Agricultural

Extension Service, that can be enhanced to work in a renewed spirit of cooperation for a new era. Generating new technologies to work in new settings, and in new applications, should involve not only government but universities and the private sector as well.

I have asked our new Secretary of Agriculture, Clayton Yeutter, to make rural development a top priority and to get his Agency's house in order so that the various offices of USDA are focused and coordinated.

I have been encouraged by my conversations with Secretary Yeutter on this subject, and the responses of the Bush administration in this regard. I am looking forward to the opportunity to work with the Department on effective rural development legislation.

Today, we will hear about the role that financial institutions want to play in rural development, and about how we can bridge the gap between remote communities in rural areas through telecommunications. If we can provide services across a county as well as across town, we can get and keep new businesses in rural America.

We will also hear about some success stories from local and State development leaders who are now operating revolving loan funds and other programs. I want these witnesses to tell me what is going right, and what is not working—what they found in their own experiences about the things that do not work so we don't repeat the same mistakes.

The testimony we will hear today will provide examples of the kind of endeavors that can be pursued to bring rural America back into the economic mainstream. Many different ideas should be pursued. One of the things I have learned, even though I come from a rural State, is what may well work in rural Vermont may not work in rural Indiana or rural Alabama, and vice versa. Local initiatives and local decisionmaking will be critical to shaping individual efforts. It doesn't mean that we give up on it because we have different types of rural areas. We find the things that work in each one of them; we find the things that give the flexibility to rural leaders to tailor for their own States and their own rural areas what they need.

We have a big obligation to rural Americans and we have an enormous opportunity to expand this commitment. These hearings will enable us to begin understanding the first, and respond to the second. The challenge is great, but for the first time, I feel confident we may meet it this year. This is neither the best time nor the worst time, but I do believe it is the right time.

Over and over again, this is the committee that rural America looks to for leadership. I might say in this regard I want to compliment the distinguished Senator from North Dakota, Senator Conrad. He took the bull by the horns on this and recommended to the Senate leadership that we have a task force on rural America, and I am delighted that he not only is a member of the task force, but has pushed forward that idea.

The Senate is probably the best place to look at this issue. Every single Senator, no matter what State he or she comes from, has a rural area, greater or lesser, but every single Senator does. So I think we can understand—both Republicans and Democrats alike, we well understand the needs of rural America.

With that, I will yield to my good friend, the distinguished senior Senator from Indiana, Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman. I appreciate again your leadership and this opportunity to hear testimony on rural development issues. Along with you, I have been concerned for many years about the status of the rural economy.

Rural America's economy has not grown as rapidly as the rest of the country's economy during this unprecedented period of overall growth in the country of the last 7 years. Because of my concern about the state of the rural economy, I have joined with you to encourage the Senate leadership to form a bipartisan Senate task force to develop a comprehensive rural development initiative for 1989. My staff has been working for several months with interested private groups to identify workable, cost-effective strategies for improving private business and human resource development.

Concern about the Federal budget deficit is pervasive, and for this reason there is little likelihood of receiving large sums of money this year for rural development. In order to fund substantial new programs, the committee will have to investigate innovative approaches to funding. For example, each year the Department of Agriculture has unexpended balances in farm ownership and operating guaranteed loans. In fiscal year 1988, the unobligated balance was over $1.5 billion.

The USDA currently has only limited authority to transfer funds. Only 7 percent may be transferred, and even then only under emergency conditions. I believe the committee should consider greater flexibility in the transferring of such unobligated balances.

An area of vital importance to the state of the rural economy is the creation, retention, and expansion of rural businesses. Some evidence indicates that a major impediment to rural business development is a lack of available credit. In conversations with rural bankers, they have indicated to me that existing Federal programs are often too cumbersome and bureaucratic. Some bankers have commented that they no longer use these programs at all due to the burdensome Federal requirements. I will be interested in the comments the representatives of the American Bankers Association on this topic.

Recently, though, I heard about a program in the State of Michigan that appears to be successful and especially nonbureaucratic. Under the Michigan approach, most creditworthy businesses can get financing with very modest Government investment.

The program creates a reserve fund that banks can tap when loans made under the program fail. When a bank makes a loan under the program, the borrower must make a small premium payment, the bank must match that payment and the Federal Government then matches the combined total of the other two payments. The reserve fund created by each bank using this method is earmarked for that specific bank so that each bank has its own reserve fund to draw upon if any loan it has made becomes a loss. The reserve fund allows a bank to be more aggressive in its loanmaking. However, because the reserve fund is limited, there is a built-in incentive for banks to be prudent. My staff has drafted rural business financing legislation based upon the Michigan program.

Once again, Mr. Chairman, I appreciate this opportunity to hear this testimony today and I look forward to working with you, the other members of our committee and other committees in drafting broad-based, multijurisdictional rural development legislation.

The CHAIRMAN. Thank you very much, Senator Lugar. The Michigan program is an interesting one. I would be interested in following that up with you.

Senator Heflin, did you have anything you wanted to say?

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. Well, as the chairman of the Subcommittee on Rural Development and Rural Electrification, I am delighted that we are holding these hearings, and holding them at the full committee level, since I think really that this is a major problem that confronts rural America today. There are many problems that confront it, and I would like, therefore, to give priority to rural development.

We proceeded last year toward a rural development bill; it did not finalize. The drought came along and drought assistance legislation took priority over it and we were never able to get back. There were some differences, but I hope those differences can be resolved.

Rural development has been neglected. Actually, the programs that we have had have been diminished, and therefore it seems to me that the time is right to give priority to the issue of rural development.

There are many problems that confront it, and problems differ geographically. We have one particular, unique problem in the South. We have a vast number of former agricultural workers who still live in rural America, and the unemployment rates run in some counties from 40 to 50 percent.

Economic development and the programs to try to bring about the creation of economic development and jobs will not only help those that are part-time farmers and agribusinesses, but it would also help those that have no jobs or those that have only seasonal jobs. And to me, this is very important.

We had the Appalachian Regional Commission approach, and now there is an approach, for example, in regard to the Mississippi River Development Program which would follow similar to an Appalachian Regional Commission that a number of people are pushing. But it covers only a small area, and there are areas in which some, in my judgment, direction and programs with incentives relative to the high unemployment in rural areas ought to be addressed.

Then, of course, just economic development for rural areas as a whole is very important, and then the issue pertaining to the quality of life, and the quality of life has many, many aspects.

We have pushed water projects and rural water is now becoming more available, but it really has no real direction and really needs to have some coordination and cooperation between the multiple water authorities that exist in counties, in States, and other places.

I think the rural electrification program has done a tremendous job. They are looking at things they can do. The matter pertaining to cable television is one that still ought to be looked at, and then there is just the issue of fire protection, which is a big, important matter that ought to be looked at pertaining to rural America.

Then you get into the issue of rural health, and rural health has sadly been neglected and we have many rural hospitals that are closing because of differential in Medicare payments and other things.

And then infant mortality in the rural sections of America is much more substantial and higher than it is in urban areas, and it also has a relationship to certain places where former farm laborers are no longer employed.

And so the whole issue of rural development is one that ought to have the attention of Congress, and Senator Conrad is to be congratulated for his task force. And I pledge to work with the Chairman, the ranking minority leader, the task force, and others to try to develop a comprehensive program of rural development that can aid, and to me this is something that is certainly needed.

Thank you, Mr. Chairman.

The **Chairman**. Thank you, Senator Heflin, and, again, I want to compliment your leadership in these areas. I think your summary points out very, very well all the areas that we touch on, all of which are very important.

And I concur with you; had it not been for the drought, I think we might have been able to move legislation last year. The drought just kind of overwhelmed everything and we had to move with that. One of the reasons why I wanted this to be early on in the agenda this year is to give your subcommittee time to tackle the various, often at least apparently conflicting, but not necessarily so, interests to get the legislation together.

Senator Conrad.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator **Conrad**. Thank you, Mr. Chairman. I want to thank you and Senator Heflin and Senator Lugar, as well, for repeatedly providing leadership on this issue. When we tried last year to move a bill, one of the roadblocks we ran into was that we are faced with sequential jurisdiction in other committees. That is really why I proposed to the leader that we have a task force that would be under your leadership, bipartisan and with the strong involvement of Senator Heflin, who was a major force on this last year. It was my intent that we get all the jurisdictions together in one room, and hopefully, like we did with the drought bill and like you did with the drug bill, have a chance to move something successfully.

It is critically important to my State, as the Chairman so well knows after having visited there twice already.

The **Chairman**. I went out there so many times, I thought I was taking up residence.

Senator **Conrad**. In fact, you have a $50,000 payment limitation that applies. [Laughter.]

We very much appreciate the attention that you, Mr. Chairman, have paid to our part of the country. We are suffering from serious outmigration. The moving companies have now said my State is the largest outmigration State in the Nation for the second year in a row. We are under severe economic strain and we desperately need help, and we believe a rural development bill has the potential to provide some assistance.

Mr. Chairman, I just wanted to share with you an experience we just had. We held a "data day" conference in North Dakota in which we focused on attracting the information processing industry, which plays into the telecommunications focus that we have today.

Attending the conference was a man from Philadelphia who operates the third largest travel company in the world. He saw the drought, saw that North Dakota was the most affected, and decided to put some temporary jobs there. He moved 40 data processing jobs to a small town in south central North Dakota, Linton, North Dakota. His name is Hal Rosenbluth, of Rosenbluth Travel in Philadelphia.

He was just out to my State and announced those jobs are now going to be permanent jobs. And, in fact, he is expanding his operation. He is going to make a reservation center in North Dakota.

This is a young man who has taken a family-owned firm from 30 employees to 2,100, a very large company. He is convinced that data base management and information processing can be done more cost effectively in rural parts of the country now that distances no longer mean so much.

This is really a case study in successful rural development, and I am hopeful that at some point we can use that example and perhaps have Mr. Rosenbluth in to talk about the base of knowledge that we are acquiring today.

The **Chairman**. We will do it.

Senator **Conrad**. Thank you, Mr. Chairman.

The **Chairman**. Senator Baucus.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator **Baucus**. Thank you, Mr. Chairman. I think Senator Conrad hit the nail on the head when he talked about the problems facing those rural areas west of the 100th meridian. It doesn't rain in our part of the country.

You know, I think the average annual rainfall in Washington, D.C., is about 40 inches. In our part of the country, it is about 16 to 18 inches; it is much, much less. That includes rain in the summers, which we don't get enough of, as well as snow in the winter. We just don't get the precipitation west of the 100th meridian that the eastern part of the United States gets.

As Senator Heflin said, rural problems are different in different rural areas of the country. Certainly, in our part of the country, because it doesn't rain, a major problem we have is space and distance. It is critical, therefore, that we address all the problems that are coming up.

Now, I want to echo a point that Senator Conrad made about telecommunications. It fits in with an article I read a day or two ago by Peter Drucker. I think it was the editorial page of—it might have been the Journal; I have forgotten which paper it was, talking about new headquarters, as opposed to office centers, to be headquarters centers.

A natural byproduct of that is a lot of the telecommunications work—because of advances in telecommunications, a lot of the so-called office work or some of the telecommunications work can be done elsewhere. It doesn't have to be at city centers, and probably in the wave of the future there will be less in city centers.

There will be more need and more opportunity for more work in rural areas of the country.

Everything is transmitted now by electronic message, transferred electronically; I mean, all messages almost entirely. And so it is clear that there are greater opportunities there, and the same goes for capital flows. The same also applies to transportation.

I mean, it is critical that programs like essential air service are alive and well and can be counted on. Anecdotes are dangerous, but there is one firm in Wolf Point, Montana. It is called Wood's Power Grip. The lady has 50 employees. Big Sky Airlines flies into Wolf Point and it almost is enough for her, therefore, to get with one day to her customers, to her suppliers, so she can do business. But without essential air service, she has to pull up; I mean, she has to fold up and go somewhere else. You have to have some kind of transportation to stay alive.

I feel quite confident that we are going to finally get somewhere this year on rural development. As you said, Mr. Chairman, the drought bill tended to supersede this committee's actions on rural development. But I sense this year, with the appointment of the task force and with your leadership of not only this committee, but your leadership with the overall task force, that we are going to get somewhere, and basically because the leader, Senator Mitchell, has made this a definite priority. He is making this a definite commitment, and it is a bipartisan commitment, and I just commend you in what you are doing.

The CHAIRMAN. Thank you. I was also encouraged by the comments that the President and others have made about rural America, and this is the time to try. When you talk about communications, there is a great difference.

I mean, even in our own experience, many in the Senate have done the same thing; I know I did as soon as I came here, and that was to change from the tradition of having all your caseworkers down here to having the caseworkers back in your home State.

They deal with the Federal Government by phone. If they were here, they would deal by phone and it is just as easy to deal by phone from Montana, Vermont, or anywhere else. I find sometimes some of my most productive time, in contacting all the different Federal agencies I have to, is when I am back home in Vermont. I sit there on the phone and just make one call after another. If I was here, I would be doing the same thing, but I can get them done there and still meet people I am supposed to represent.

Senator Daschle, did you have anything you wanted to say?

STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator **Daschle**. Well, Mr. Chairman, I would just make two points that were raised last month during Senator Harkin's hearing in Sioux City that both Senator Kerrey and I attended.

At this hearing, an important point was made by a number of development people that we try to find the resolution to the problems related to rural development, and that we ought not unnecessarily create more programs that add to the alphabet of programs already in existence.

We don't need more EDA's and more FmHA's and more acronyms; we need more resources. Since 1980, according to a table prepared by the National Association of Development Organizations we have lost 67 percent of our resources in rural development.

That is the heart of the problem. It isn't that we don't have responses to the problems that exist out there. We have them; it is just that we have seen two-thirds of the resources that we had in 1980 evaporate.

As we go through this process I am interested in making sure that we don't unnecessarily add more programs without adding additional resources making use of existing resources and better utilizing them should be one of our goals.

Senator **Baucus**. Will the Senator yield on that point?

Senator **Daschle**. Yes.

Senator **Baucus**. I think that is critical. I also think it is important to inventory all that we have——

Senator **Daschle**. That is right.

Senator **Baucus** [continuing]. Because in some cases they are duplicate. You know, if this is going to work, we have to have an inventory to make sure that it is very efficient.

Senator **Daschle**. Well, this table that I am going to hand out in just a minute—it is being copied right now and I would ask Betsy Rosen if she would just share it with everybody. The table is a list of those programs affecting rural development that, in the minds of rural development people in South Dakota, anyway, are most important to us. It shows what has happened to funding since 1980, and I think it is instructive as we look at this issue.

The other is the multifaceted point that Senator Conrad and Senator Baucus have both addressed. The fact is that we are going to be taking up a rural health care bill this year, and that is going to be critical if we are considering rural development. South Dakota may lose 50 hospitals in the next 5 years unless we deal with rural health care in a more comprehensive way.

Senator Cranston and others have talked about a rural housing bill. That ought to be part of our response to problems in rural areas. Once again, these responses deal with resources, not new programs. So while we have to look at it in ways that go beyond the jurisdiction of this committee, I hope we understand how multifaceted this is and, certainly, from the comments made this morning that is already well understood. But we also need to understand that it is largely a matter of resources.

[The table referred to by Senator Daschle follows:]

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
Suite 372, 400 North Capitol Street, N.W., Washington, D.C. 20001 • 202/624-7806

FEDERAL BUDGET COMPARISON, 1980-1990, RURAL AND RELATED DOMESTIC PROGRAMS

(Millions of Dollars)	1980	1989	Proposed 1990	Difference 1980-1990	Percent Change
DEPARTMENT OF AGRICULTURE					
FmHA					
Water & Waste Disposal Grants	290.0	109.4	75.0	-215.0	-74.1%
Water & Waste Disposal Loans *	700.0	330.4	250.0	-450.0	-64.3%
Community Facility Loans *	240.0	95.7	50.0	-190.0	-79.2%
Business & Industry Grants	10.0	6.5	0.0	-10.0	-100.0%
Business & Industry Loans *	1073.8	295.7	95.7	-978.1	-91.1%
Fire Protection Grants	3.5	3.1	0.0	-3.5	-100.0%
Planning Grants (Sec. 111)	6.0	0.0	0.0	-6.0	-100.0%
Rental Housing Loans *	881.3	554.9	100.0	-781.3	-88.7%
Resource Cons. & Development Loans *	1.8	1.2	0.0	-1.8	-100.0%
SCS - RC & D Projects	32.0	25.0	24.5	-7.5	-23.4%
APPALACHIAN REGIONAL COMMISSION					
Total Non-Highway Programs	126.6	69.4	0.0	-126.6	-100.0%
Research, T.A., Other	2.6	2.6	0.0	-2.6	-100.0%
Local Development Districts	5.7	3.2	0.0	-5.7	-100.0%
DEPARTMENT OF COMMERCE					
EDA					
Planning Grants	33.6	23.0	0.0	-33.6	-100.0%
Public Works	260.7	126.5	0.0	-260.7	-100.0%
Economic Adjustment Grants	85.9	24.7	0.0	-85.9	-100.0%
Technical Assistance	30.7	6.7	0.0	-30.7	-100.0%
Research & Evaluation	4.2	1.2	0.0	-4.2	-100.0%
Direct Loans	116.4	0.0	0.0	-116.4	-100.0%
Total Program Funds	531.50	194.0	0.0	-531.5	-100.0%
Loan Guarantees *	425.0	150.0	0.0	-425.0	-100.0%
Salaries & Expenses	40.0	24.7	20.0	-20.0	-51.0%
REGIONAL DEVELOPMENT (Title V)	109.4	0.0	0.0	-109.4	-100.0%
ENVIRONMENTAL PROTECTION AGENCY					
Construction Grants	4900.0	1950.0	1,200.0	-3700.0	-75.5%
DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Administration on Aging					
Services and Centers	269.5	277.0	276.6	7.1	2.6%
Congregate Meals	270.0	357.0	356.7	86.7	32.1%
Home Delivered Meals	50.0	78.6	78.5	28.5	57.0%
Reasearch and Training	54.0	24.0	24.2	-29.8	-55.2%
In-Home Frail Elderly	0.0	5.0	4.8	4.8	n.a.
Community Serv. Block Grant(80-81 CSA)	550.5	377.6	0.0	-550.5	-100.0%
National Health Service Corp.	77.5	47.8	20.5	-57.0	-73.5%
Rural Development Loan Fund	20.0	0.0	0.0	-20.0	-100.0%

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
Suite 372, 400 North Capitol Street, N.W., Washington, D.C. 20001 • 202/624-7806

FEDERAL BUDGET COMPARISON, FY 1980-1990, RURAL AND RELATED DOMESTIC PROGRAMS

	1980	1989	Proposed 1990	Difference 1980-1990	Percent Change
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Comm. Dev. Blk. Grant-CDBG (30% rural)	3862.0	3000.0	2,792.0	-1070.0	-27.7%
Urban Dev. Act. Grant-UDAG (25% rural)	675.0	101.0	0.0	-675.0	-100.0%
Rehabilitation Loans (312)	214.2	37.2	0.0	-214.2	-100.0%
DEPARTMENT OF INTERIOR					
State Outdoor Rec. (LWCF) Grants	318.6	16.7	0.0	-318.6	-100.0%
State Historic Preservation Grants	43.8	30.7	0.0	-43.8	-100.0%
Payment in Lieu of Taxes (BLM)	108.0	105.0	105.0	-3.0	-2.8%
DEPARTMENT OF LABOR					
JTPA State Block Grant (1980 CETA)	3342.0	1787.8	1,787.8	-1554.2	-46.5%
Summer Youth (1980 CETA)	2330.5	709.4	709.4	-1621.1	-69.6%
Dislocated Worker (80 Trade Adj. Asst)	1664.4	283.9	371.3	-1293.1	-77.7%
Comm. Service Empl. for Older Amer.	266.9	343.8	336.0	69.1	25.9%
SMALL BUSINESS ADMINISTRATION					
503/504 Cert. Development Co. Loans *	250.00	450.0	332.0	82.0	32.8%
Small Bus. Investment Co. Loans	148.8	233.0	118.0	-30.8	-20.7%
Minority Ent. SBIC Loan- Direct	32.5	36.0	36.0	3.5	10.8%
General Business Loans (Guaranteed) *	3000.0	2421.0	2,453.0	-547.0	-18.2%
General Business Loans- Direct	218.7	0.0	0.0	-218.7	-100.0%
SBDC Program	3.9	45.0	0.0	-3.9	-100.0%
Sec. 502 Dev. Company Loans- Direct	44.7	0.0	0.0	-44.7	-100.0%
TENNESSEE VALLEY AUTHORITY					
Economic & Comm. Resources	12.4	12.2	0.0	-12.4	-100.0%
DEPARTMENT OF TRANSPORTATION					
Local Rail Service Assistance	82.6	5.3	0.0	-82.6	-100.0%
Sec. 18 Mass Transit Grants-100% rural	57.1	66.4	0.0	-57.1	-100.0%
Aircraft Purchase Loans *	650.0	0.0	0.0	-650.0	-100.0%
Appalachian Highway Systems	228.7	70.5	0.0	-228.7	-100.0%
Secondary (Rural) Highway System	889.4	350.0	324.5	-564.9	-63.5%
Payments Air Carriers(Local Air Serv.)	95.8	25.0	0.0	-95.8	-100.0%
DEPARTMENT OF TREASURY					
General Revenue Sharing	6854.9	0.0	0.0	-6854.9	-100.0%
TOTALS	36,597.9	15,294.7	11,941.5	-24656.4	-67.4%

NOTE:
Asterisk * indicates Loan Guarantee authority

4/5/89

The CHAIRMAN. Thank you very much.

Senator Kerrey, it is good to have you here.

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator KERREY. Well, thank you. Mr. Chairman, I would simply reiterate what others have said here, which is to commend you for taking an interest and pursuing in an impressive way the issue of rural development.

The only comment that I would make is that I have seen, not only from the standpoint of serving as Governor and trying to accomplish rural development at the community level, but also as a business person, that what we are essentially trying to do is encourage people that know how to make money.

Unless we change our system, and I don't think anybody is proposing that, profit still is the essential ingredient in all this rural development effort. What we try to do, of course, is make sure that the infrastructure is there, make sure the regulatory environment is proper, make sure perhaps that a variety of additional tools could be placed there, make sure the educational infrastructure is there, and include a whole range of things that you all have touched on.

But profit is still at the heart of it, and I would just point out that there are many more people that want to make profit than know how to do it. And I think it is a rather important primary assumption because I am sure all of you have faced not only individuals that don't know how to make profit that would like to have some little additional program perhaps to take the burden off of them, but you have also faced individuals that know how to make profit.

But often they are up against insufficient infrastructure. They are not on a four-lane highway and so they move out of a rural community as a result in many instances of a new manufacturing requirement called just-in-time inventory, where unless you have the capacity to deliver products or materials just-in-time, it is difficult for you to compete. That sort of economic consideration I think has to be part and parcel to our concept of rural development.

Profit is at the heart of rural development, and I appreciate how complicated that gets, but I just want to assert at the start that I am neither a banker nor an economic consultant. And I am very often asked to be both from constituents who would like my advice or assistance in ways that would require me to be either one of those in order to advance their projects.

Finally I would just redundantly state that the effort to provide rural development tools and a rural development infrastructure, I think, is extremely important, Mr. Chairman, and I really appreciate your drawing the Nation's attention to the task.

The CHAIRMAN. Thank you very much. We have previously discussed the whole issue of rural development, and, of course, you have had the unique experience of having to deal with it as a Governor, too, and know all the more the need that we have to be able to have programs here that are flexible enough so that the State of Nebraska can use them to its advantage, as can the State of Indiana, the State of Vermont, and any other State, even though we are all quite a bit different.

Well, let us hear, then, from Murray Lull, who is the chairman of the executive committee of the Agricultural Bankers Division of the American Bankers Association, and he is also president of the Smith County State Bank and Trust Company; and Will Kitchen, who is an education and telecommunications consultant and designer from Edina, Minnesota.

Mr. Lull and Mr. Kitchen, your full prepared statements, of course, will be part of the record, but we would be pleased if you could give us a general summary of the points that you want to remain with us, and then we will have a series of questions for you.

[The prepared statement of Senator Harkin and submitted questions and responses follow:]

STATEMENT OF SENATOR TOM HARKIN

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

HEARING ON RURAL DEVELOPMENT ISSUES

WEDNESDAY, APRIL 5, 1989

Thank you, Mr. Chairman. First, I want to thank you for your great leadership and interest in rural development legislation in years past and again this year. I also want to thank Senator Lugar and Senator Heflin, Chairman of the Subcommittee on Rural Development and Rural Electrification, for their interest in and support for rural development legislation.

I am optimistic that we will pass significant legislation on rural development this year. We have begun to work on and consider legislation, and I sense a real desire in Congress to pass a bill this year. So I am very pleased that we are having this hearing today.

I want to emphasize how important I believe it is that we move rural development legislation soon. I will not cite the statistics here, but abundant evidence shows that the small towns and rural areas of our country have not fully shared in national economic progress. I know this is so from visiting these smaller communities and talking with farmers, Main Street and agricultural business people and workers who depend on the availability of jobs at decent wages to support their families. In my state most of these communities are still struggling to recover from the 1982 recession and the recent farm financial crisis, the worst of which is now several years in the past.

Judging by developments over the past eight years, one could easily conclude that our Nation is purposely creating a bi-coastal economy focused on a handful of large urban centers, while allowing the remainder of the country to become a vast, economically backward "flyover" area. In my view, if this trend is not reversed we are headed for a national calamity of the first order. I am encouraged that President Bush and Secretary Yeutter have expressed support for rural economic development and I am hopeful that we will see more attention to this critical matter.

Mr. Chairman, I very firmly believe that there is a strong national interest in helping our rural communities find and take advantage of opportunities for economic progress. When our local economies and communities falter, our Nation as a whole suffers. Over the years our rural areas and small communities have contributed greatly to our national wealth and prosperity through agriculture, mining, timber, manufacturing and other industries. The right policies can help them further develop and contribute as a source of wealth for our Nation.

There are many ideas for helping to promote development in our rural areas and smaller communities. It is clear, however, that economic development efforts will have no chance to succeed if a community lacks the necessary basic facilities and infrastructure. These include adequate amounts of safe water, sewer facilities, roads, bridges, communications, schools, hospitals, and so forth.

In Iowa we have many communities that are either out of water or on the verge of running out of water. Without water the community cannot survive, and certainly cannot prosper. For fiscal year 1989, Iowa has been allocated $6.5 million in FmHA grant and loan money for water and sewer projects. So far about $60 million worth of applications have been submitted for this money. Nationally, well over $1 billion worth of applications have been submitted for such projects, far more than twice the amount of money available. Helping these communities obtain water and other basic community needs must be a top priority of any rural development effort.

I also want to mention my support for encouraging business development and capital availability in rural areas and smaller communities. A report from Iowa State University indicates that in recent years the net job performance of small firms has far exceeded that of large firms. New independent firms account for 87 percent of the net new job growth in nonmetropolitan areas. I believe we must work to help communities develop opportunities for creating "homegrown" jobs, with particular emphasis on building upon the existing strengths of communities, such as the strong agricultural base found in many rural communities.

One method I favor for helping to get capital to rural communities is the use of federal seed money to help form revolving funds that would help supply capital to supplement commercial sources of credit. A fund would loan money to businesses and when it is repaid the money could be used to make new loans. This type of program would in my view be a great help to small, beginning businesses.

Thank you Mr. Chairman. I look forward to the testimony and ideas to be presented at today's hearing.

(Questions submitted by Senator Harkin and the responses follow:)

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

HEARING ON RURAL DEVELOPMENT ISSUES

WEDNESDAY, APRIL 5, 1989

A. Questions for Mr. Lull

1. You mentioned in your statement that the American Bankers Association opposes direct federal loans to rural residents and businesses, such as through the Farmers Home Administration.

a. What can be done to help get capital to individuals and businesses who are basically good credit risks and who have good potential for financial success, but who cannot afford the interest rates or meet the standards for commercial loans, even if Federal loan guarantees are provided?

b. Does the American Bankers Association have an opinion or position on providing FmHA grants and direct loans for water and sewer facilities and community facilities?

2. What role would you see for commercial banks in helping communities develop the infrastructure and facilities they need, such as adequate water and sewer facilities?

3. What is your view on the use of Federal money as seed money for revolving funds to help meet the capital needs of businesses in rural communities?

a. What is your view regarding the use of convertible debentures, where at some point, say 5 years after the loan, a revolving fund's position would change from debt to equity, and then the equity position would immediately be sold? In this way the revolving fund would share in the growth of the business, thus providing additional funds for future loans.

4. What are the most helpful actions that the Federal government could take to encourage and promote job growth through economic and business development in rural areas and smaller communities?

5. In your experience, is lack of access to technical, financial and business information a significant impediment to starting and running a business in rural areas?

What role could the Federal government play in helping people in rural areas gain access to this type of information?

B. Questions for Mr. Kitchen

1. Could you please provide for the Committee any analysis that you or others have done of the expected costs of your proposals, that is, what would governments and businesses need to spend to develop the various types of systems you are proposing?

2. What methods would you envision for obtaining the financing and capital needed for such telecommunications improvements?

C. Questions for Mr. Farmer and Mr. Barber

1. What has your experience been regarding the role and need for infrastructure, such as water and sewer facilities, as a prerequisite for development and what examples can you give of successful ways of addressing this need?

2. How successful has the FmHA program of grants and loans for water and sewer facilities been in helping smaller communities?

3. What will the effect be if FmHA water and sewer grants and loans are shifted towards guaranteed rather than direct loans?

4. How has the reduction in federal spending on rural development programs affected the areas of the country that you represent?

5. What are the most helpful actions that the Federal government could take to encourage and promote job growth through economic and business development in rural areas and smaller communities?

6. In your experience, what can rural communities do to attract investment capital?

7. What are your views on designing revolving loan funds so that at some point the fund obtains an equity interest in the business that has been loaned money and then immediately sells the equity interest, thus sharing in the growth of the business?

8. In your experience, is lack of access to technical, financial and business information a significant impediment to starting and running a business in rural areas?

What role could the Federal government play in helping people in rural areas gain access to this type of information?

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN and
ANSWERS BY MURRAY D. LULL
AMERICAN BANKERS ASSOCIATION

QUESTION 1:

You mentioned in your statement that the American Bankers Association opposed direct federal loans to rural residents and businesses, such as through the Farmers Home Administration.

a. What can be done to help get capital to individuals and businesses who are basically good credit risks and who have good potential for financial success, but who cannot afford the interest rates or meet the standards for commercial loans, even if Federal loan guarantees are provided?

RESPONSE:

Senator Harkin, when you referred to "individuals and businesses who have basically good credit risks", I am not precisely sure what you are implying, but let's review this basic scenario. Banks serve as financial intermediaries and exist to make loans to all aspects of rural communities. However, these loans must be of sufficient quality in order to adequately protect both the stockholders and depositors of those institutions. As a matter of public policy, commercial banks are heavily supervised and regulated in order to provide safety and soundness to our depositors. The American Bankers Association strongly supports the Federal Loan Guaranteed Programs of both the Small Business Administration and Farmers Home Administration. In some cases, an interest rate buydown program or an equity capital program may be useful in providing credit to those individuals who would not qualify even with the Federal Loan Guarantee.

QUESTION 1

b. Does the American Bankers Association have an opinion or position on providing FmHA grants and direct loans for water and sewer facilities and community facilities?

RESPONSE:

The American Bankers Association would strongly support, as a viable alternative to direct loans, a guaranteed loan program for community facilities, water and sewer projects. In some instances either direct loans or grants from Farmers Home Administration may be necessary when the local government lacks the credit quality to be eligible for either commercial loans or loans backed by a guarantee.

QUESTION 2:

What role would you see for commercial banks in helping communities develop the infrastructure and facilities they need, such as adequate water and sewer facilities?

RESPONSE:

Many experts have stressed the need for improvements in rural communities' infrastructures to attract new and to retain existing enterprises. In particular, adequate roads, water and sewer systems, utilities, and health care facilities are essential ingredients to support long range economic growth. Obtaining the necessary funds for such projects is made more difficult for small towns because banks cannot underwrite revenue bonds. We realize that this committee does not have jurisdiction over this area of revenue bond underwriting, but we do want to mention it because it does affect rural communities directly. further, commercial banks, particularly rural banks, are very interested in an FmHA, SBA or other types of guaranteed loan structures in order to help communities with infrastructure and necessary community facility needs.

QUESTION 3:

What is your view on the use of Federal money as seed money for revolving funds to help meet the capital needs of businesses in rural communities?

a. What is your view regarding the use of convertible debentures, where at some point, say 5 years after the loan, a revolving fund's position would change from debt to equity, and then the equity position would immediately be sold? In this way the revolving fund would share in the growth of the business, thus providing additional funds for future loans.

RESPONSE:

ABA would consider the use of limited Federal dollars to establish a revolving fund to help meet the capital needs of businesses in rural communities. However, we must ensure that any such program contain a minimum amount of bureaucratic red tape and can satisfy the diversified needs of businesses located across the entire country.

a. The ABA Agricultural Bankers Division and the Small Business Banking Committee have not formulated a position on the conversion of revolving fund dollars from debt to equity. It has been my experience that many small businesses do not need more debt. However, they do need additional equity capital. I would hope any revolving funds or similar mechanisms would focus their attention on the equity side of the business.

QUESTION 4:

What are the most helpful actions that the Federal government could take to encourage and promote job growth through economic and business development in rural areas and smaller communities?

RESPONSE:

I see four potential areas of additional emphasis which could improve business development in rural areas:

1) Additional funds in some fashion for infrastructure needs -- particularly transportation, communication, and basic public services.

2) Expansion of the Guaranteed Lending Programs.

3) Development of a mechanism for equity capital.

4) New emphasis on programs that provide technical, financial and business information to potential small business operators.

QUESTION 5:

In your experience, is lack of access to technical, financial and business information a significant impediment to starting and running a business in rural areas?

a. What role could the Federal government play in helping people in rural areas gain access to this type of information?

RESPONSE:

Yes, the lack of access to technical, financial and business information is a significant impediment. I believe there can be an expanded role for the Cooperative Extension Service and commercial banks to work in partnership with other state and local agencies in providing expertise to start and run small businesses.

a. Often, it is not so much that the information is not available, but it is not in a form acceptable or useful to the small business applicant. An agency of the Federal government, given primary responsibility for information dissemination, could be a very useful activity of the

Federal government. We are very much aware of the tight dollar situation at the Federal level and recognize that the Federal government is currently borrowing a significant portion of its money to run all of the Federal programs. It is therefore imperative that these limited dollars be utilized in the most efficient manner in cooperation with state and local enterprises.

RESPONSES FROM WILL KITCHEN

ANSWERS TO QUESTIONS SUBMITTED BY SENATOR TOM HARKIN
Hearing on Rural Development Issues
Wednesday, April 5, 1989

Question 1: Could you please provide for the Committee any analysis that you or others have done of the expected costs of your proposals, that is, what would governments and businesses need to spend to develop the various types of systems that you are proposing?

The cost for specific regional projects varies greatly. The factors that must be considered for determining costs for interactive educational voice, video, and data networks in rural America include:

a. Availability of existing telecommunications infrastructure
b. Distances and terrain between schools and communities
c. Network capacity requirements
d. Available, interested users willing to share costs for network use (e.g., businesses, universities, medical and health institutions, government agencies, libriaries, etc.)
e. Type of technology used
f. Lease or ownership of the network

Costs for specifice educational projects over the past seven years have ranged from $5,000 to $110,000 per school. Most recently, U S WEST Communications has proposed specific monthly lease arrangements for several schools using T-1 (compressed video over copper telephone wire) rates of $320.00 per month per school for a five to seven year lease. However, one project in northwestern Colorado where there is virtually no existing telephone facilities, the cost was in excess of $20,000 to 30,000 per month for the school district.

There are numerous rural school districts and regions throughout the United States where the existing infrastructure must be upgraded in order for schools to take advantage of interactive distance learning opportunities at reasonable rates.

I am having a National School Boards Association/U S WEST booklet sent to you which will outline technology options with

general costs included. (This booklet is retained in the committee file.)

2. Question: Which methods would you envision for obtaining the financing and capital needed for such telecommunications improvements?

The exisiting STAR SCHOOLS program enacted in 1987-88 is an important first step in providing federal support for distance learning. However, the program should be adapted to encourage innovative examination of rural technology options (e.g., T-1, fiber optics, digital radio, etc.). The emphasis on satellite technology and state and multi-state projects has limited the examination of newer technologies with higher capacity and does not offer a wide range of educational options for local rural school districts. The Department of Education STAR SCHOOLS program has not encourage local control of eductional programming and extensive student/teacher interaction.

A new pool of federal funding should be provided through the Rural Electrification Administration to target high need, regional rural projects emphasizing partnerships with local telecommunications companies. These rural projects could be funded partially by federal funds, local commitments, and business involvement.

One way to encourage more telecommunications competition and options in rural America would be to remove many of the restrictions placed on telephone companies. Fewer restrictions would encourage educational participation in new telecommunications initiatives and would allow more creative and cost-effective facility designs and services to be provided.

Thank you for this opportunity to respond to Senator Harkin's questions.

Sincerely,

Will Kitchen

Will Kitchen

LARRY N. FARMER, SR., PRESIDENT, MISSISSIPPI ACTION FOR COMMUNITY EDUCATION (MACE)

RESPONSE TO QUESTIONS SUBMITTED BY SENATOR TOM HARKIN HEARING ON RURAL DEVELOPMENT ISSUES

WEDNESDAY, APRIL 5, 1989

Question #1:

What has your experience been regarding the role and need for infrastructure, such as water and sewer facilities, as a prerequisite for development and what examples can you give of successful ways of addressing this need?

Response To Question:

Over the years I have had considerable involvement and experience in working with predominantly-black, small and economically disadvantaged rural units of governments and community-based organizations on infranstructure related projects and activities. These projects and activities have included: water and sewer, collection and disposal systems, streets, etc..., which are prerequisites for any rural community development effort. The most successful example I can give you of addressing this need involve MACE's work with the Metcalfe Community, which is now an incorporated Town under applicable Mississippi Laws

For almost ninety (90) years, the Town of Metcalfe, which is 99% black, existed as an unincorporated rural community. Socio-economic characteristics in Metcalfe at the time were reflective of any number of predominantly-black and poverty stricken communities throughout rural Mississippi, e.g. high rates of unemployment and teen parenting; deteriorated housing shack; no sewer collection and disposal systems; a population consisting of the elderly and youths; etc.. In late 1976, MACE began working with local citizens who were officials of the Metcalfe Development Association, Inc., an unincorporated community association formed to work to incorporate Metcalfe as a Town. Approximately one year's effort resulted in Metcalfe's incorporation as a Town. Following incorporation, MACE assisted officials of the newly incorporated Town in the development and implementation of a strategic development plan and strategy to address the communities basis needs and ills. Initial energies and efforts were place on assisting the Town in addressing its basic infrastruce needs. These resulted in the following:

--- A CDBG grant in the amount of $331,000 to assist the Town in upgrading its antiquated water distribution system;

--- A combined FmHA loan/grant in the amount of $141,000 to complete upgrading of the Town's water system and to construct a sewer collection and disposal system;

--- Construction of a natural gas distribution system at a cost of $290,000, which was financed through the sale of "general revenue bonds", with an FmHA guarantee; and,

--- Establishment of a police and fire department through a variety of funds, e.g. General Revenue Sharing, Law Enforcement Assistance Administration, etc...

Once basic infrastructural improvements had been made, Metcalfe and MACE officials then shifted their energies and resources to development efforts designed to meet individual, family and human needs of area residents. Major accomplishment in these areas included:

--- A $600,000 Urban Development Action Grant (UDAG) which leveraged more than $3 million to construct a 36,000 square feet manufacturing facility;

--- Location of a manufacturing business in the aforementioned facility which now employees more than 150 area resident with an annual payroll of more than $2.3 million;

--- Construction of 126 units of low-income housing at a cost of more than $3.7 million for area residents;

--- Construction of forty-one single-family, low-income housing units at a cost of approximately $1.5 million; and,

--- The establishment of three black owned business, which provide more than twenty jobs to area residents.

Success experienced by the Town of Metcalfe is directly attributable to MACE and the Delta Foundation being located within this area and the technical and financial these two entites were able to make available to the Town to assist in its development efforts.

Question #2:

How successful has the FmHA program of grants and loans for water and sewer facilities been in helping smaller communities?

Response To Question:

FmHA's water and sewer loan and grant programs have been moderately successful in helping small rural communities in meeting needs in these two areas. From our vantage point, FmHA's effectiveness has been limited by four factors. First, financial resources made available through FmHA are inadequate to address the needs which exist in rural areas. Second, FmHA is not adequately staffed to handle the case load which exists, even if resources (financial) were available to handel the needs. Thirdly, many FmHA officials exhibit a hostile or amblivant attitude toward the water and sewer facilities needs of small rural communities, especially those which have predominantly-black and/or low-income populations --- initiative shown by many FmHA staffers leave a lot to be desired! Fourth, FmHA should be given the authority and flexibility to make grants up to 100% of project cost to extremely low-income communities.

Question #3:

What will the effect be if FmHA water and sewer grants and loans are shifted towards guaranteed rather than direct loans?

Response To Question:

For predoninantly-black and improvished rural communities as well as other extremely low-income communities, it would be a serious mistake to shift FmHA water and sewer grants and loans toward guaranteed rather than direct loans. In considering this possibility, several obvious questions and concerns come to mind. For example: who would make these loans --- banks, S&L's credit unions? It is highly unlikely any of these sources would be willing to make such a loan to a minority or low-income community --- especially if its a long term loan being considered. Also, it should be remembered that many conventional lending institutions would prefer to have as few dealing as possible with Federal agencies on programs of this nature.

Question #4:

How has the reduction in federal spending on rural development programs affected the areas of the country that you represent?

Answer To Question:

Reductions in federal rural spending in general, and low-income communities in particular have had a devasting impact. Elimination and/or reductions in federal spending or program such as General Revenue Sharing, Urban Development Actions Grants, and FmHA low income housing programs have all but eliminated the ability of many rural communities to address infrastructurial, economic and community development needs. Left to their own means and financial wherewithal, the vast majority of rural communities simply do not have the means to address their various needs!

Question #5:

What are the most helpful actions that the Federal government could take to encourage and promote job growth through economic and business development in rural areas and smaller communities?

Response to Question:

The Federal government is positioned to be the lead player in efforts to encourage and promote job growth through economic and business development in rural areas and smaller communities. However, any Federal initiative in these areas must take into account and reflect some "on-the-ground rural realities". First, there is no monalithic rural America -- there very different rural America with very different problems, needs, opportunities and aspriations. Second, the greatest capital deficiency in rural America is that of human and institutional capital. Third, the vast majority of economically distressed rural communities with heavy concentrations of minorities most often lack the physical infrastructure that is required to support major economic and industrial development activities. Fourth, race and racism is still a major impediment to large scale economic development happening in rural areas with large minority populations. Fifth, and finally, disadvantaged rural areas have economic, social, human and educational problems and needs commonly associated with or thought to exist only in inner-city areas of large urban centers in America.

With the above outlined factors in mind, the Federal government could do a great deal to promote job development and the revitalization of Rural America. As I see it, the hub of this Federal effort would be enactment of a comprehensive and longterm Federal Rural Development Act. The spokes or compoments stemming from this act would include, but necessarily be limited to the following:

--- Human and Institutional Capacity Building: Establishment of private, non-profit, community-based Rural Regional Community Development Training and Technical Assistance Institutes to serve economically distressed areas. The function of these centers would be to: 1) provide training (on-going) to rural community and human development practitioners in an attempt to build a cadre of skilled persons in the areas of human development, business and economic development and financing, strategic assessments and planning, housing development, organizational development, coalition building and group dynamics, and financail planning and fundraising.

--- Rural Development Financing: Establishment of Federal initiatives that would: 1) earmark funds from existingg programs such as CDBG and EDA for severely distressed communities in each state; 2) provide direct funding to severly distressed rural communities for projects such as water and sewer, natural gas, streets, etc... that would enhance a community's capacity to attract an industry or make it possible for a local industry to be started; 3) require state-wide banking systems to include in their CRA Plan a firm commitment to make business and industry loans in low-income communities; 4) Make meaningful financial incentives available to private industries who locate major facilities in low income areas and who provide employment training to unskilled low-income persons; 5) target existing Federal resources (e.g. FmHA) to areas of greatest need based on a priority system of some kind; and 6) development of criteria which would require municipal, county and state units of government, those who could afford to do so, to provide local funds to match Federal funds for various community, economic and business development activities.

--- Education & Human Development: This initiative would include: 1) Development of an effective Rural Employment Training Program for real rural jobs (e.g. farm related, metal works, etc...) local service industry and general business development readiness. (NOTE: There exists an array of employment skills training needs in rural America that JTPA cannot meet as it is presently structured). 2) Special federal funds for education of disadvantaged children should be operated with a great deal more oversight and demand, and used to persuade local school districts to increase local expenditures; per pupil expenditures; 3) Financial assistance be available to assist and encourage more minorities to enter the leading professions; and 4) More Federal aide be made available for community-based initiatives in the areas of: drug abuse and prevention; early childhood education and development; teen pregnancy prevention; low income housing; health care; transportation and employability skills training.

Question #6:

In your experience, what can rural communities do to attract investment capital?

Response to Question:

Frankly speaking, given the distressed nature of most rural areas in this part of the U.S., I am not optimistic there is a great deal that rural areas can do to attract private investment capital when left to their own devices and means. Private individuals, investment groups, conventional lenders and developers are not enticed to invest in rural communities where they see little chance of receiving any significant return on their investment, if any at all. Any significant injection of private investment in distressed rural communities will require a combination of local, state and federal financial incentives, and would have to be accompained by some financing on the part of these units of government.

Question #7:

What are your views on designing revolving loan funds so that at some point the fund obtains an equity interest in the business that has been loaned money and then immediately sells the equity interest, thus sharing in the growth of the business?

Response To Question:

This notions sounds good but will probably not work. First of all, a very high percentage newly formed businesses in rural areas fail or struggle for years before realizing a profit. Consequently, the question arises as to why whould you and want your funds injected into newly started rural business on a equity basis? Second, our experience tells us that the vast majority of local business owners are extremely reluctant to accept revolving loan fund investments on an equity basis.

Based on our experience in operating a revolving Business Developmetn Loan Fund, we would prefer to continuing to make said loans. By that, I mean: 1) an ability to make and service the loan; 2) provide the borrower or business with technical assistance and supportive services during life of the loan; and 3) recoup the loan principal and interest over a realitively short period of time (5 - 8 years) through take-out financing from one of any number of conventional lending sources.

Question #8:

In your experience, is lack of access to technical, financial and business information a significant impediment to starting and running a business in rural areas?

Response To Question:

Access to technical, financial and business information is a problem for blacks, women and other low-income persons in their attempts at starting and running a business in rural areas. However, the problem of access is miniscule in comparison to other problems these individuals face, such as:

-- the lack or limited business backgrounds and skills, management histories and financial management experiences;

-- limited or non-existant individual or group equity funds;

-- access to adequate levels of affordable financing, either public or private;

-- undercapitalization and/or too much debt financing;

-- insufficient collateral and an absence of equity investors or lenders;

-- denial of loan applications for racial or gender reasons; and,

-- the buyout of local banks by state-wide or regional banking systems that see little or no feasibility in making "high-risk loans" in depressed rural areas.

What can the Federal government do to help people in rural areas gain access to financial, technical business information? The Federal government could do a variety of things to improve access to information. These could include:

-- requiring banks to fulfill their Community Reinvestment Act commitmentes to low-income communities;

-- contacts with CBO's and CDC's, work in low income rural areas to sponsor information and training workshops to diseminate technical, financial and business information;

-- make greater utilization of various forms of media to advertise federal programs in these areas;

-- work with business schools within our university and community college systems to promote business and commercial enterprises development in rural area; and,

-- sponsor "public-private business venture" development sessions to bring lenders, investors and would be business persons togeather discuss available resources, lending criteria, market needs, etc...

RESPONSES FROM NEAL J. BARBER

ANSWERS TO QUESTIONS SUBMITTED BY SENATOR TOM HARKIN
HEARING ON RURAL DEVELOPMENT ISSUES
WEDNESDAY, APRIL 5, 1989

Question: What has your experience been regarding the role and need for infrastructure, such as water and sewer facilities, as a prerequisite for development and what examples can you give of successful ways of addressing this need?

Answer: Infrastructure is essential for business development in rural Virginia. Virginia has had numerous experiences where we have provided funding for water and sewer services to support industrial and business locations, expansions, and retentions. Virginia's Community for Opportunity Program has committed financing to the development of an industrial and business park in Lebanon, Virginia. With this investment, Virginia has already secured commitment for the location of ASAA, Inc. This business will create 250 jobs within the first year of its location and an additional 250 jobs within three years. The Community Development Block Grant (CDBG) Program has been used to provide water and sewer facilities to numerous business and industrial sites in non-metropolitan Virginia. In each case, the location or expansion of the business has been contingent upon the provision of water and sewer services to that business. South Hill, South Boston, Farmville, Marion, Pennington Gap, and Lunenburg County are but a few of the communities were such economic development activity has been contingent upon basic infrastructure.

Question: How successful has the FmHA program of grants and loans for water and sewer facilities been in helping smaller communities?

Answer: The FmHA program has been very important to Virginia in providing basic water and sewer facilities to our rural communities. The FmHA program is structured to provide basic water and sewer service to our most rural areas. Their loan and grant programs are structured to provide services to residential customers, rather than as an economic development tool for business location or expansion. Virginia has had an excellent FmHA program in our State. We commend the FmHA staff for their responsiveness, flexibility, and professionalism. The FmHA program has suffered from the lack of grant funds to make these services affordable to our most needy rural areas. Many of the smallest rural communities have a difficult time covering the operating and maintenance costs of water and sewer facilities, much less debt retirement. Because of this, we have utilized CDBG funds in combination with FmHA loan and grant programs to write down the debt service cost on water and sewer facilities, such that they are within affordable monthly user fees for its customers.

Question: What will the effect be if FmHA water and sewer grants and loans are shifted towards guaranteed rather than direct loans?

Answer: If the FmHA water and sewer grant and loan program is shifted towards a guaranteed rather than direct lending, grants from FmHA or other sources will still be necessary to write down the capital costs, so that user fees can remain affordable. A guaranteed program does not appreciably affect the interest rate. A guaranteed program reduces the risk for private lending. Since capital subsidies are necessary to reduce debt service costs, significant grant funds would be necessary in conjunction with loan guarantees to provide for affordable user fees.

Question: How has the reduction in federal spending on rural development programs affected the areas of the country that you represent?

Answer: Reduction in federal spending has very significantly reduced rural development activities and programs in Virginia. Reductions in ARC, EDA, HUD, and USDA programs have limited the resources available to rural communities in meeting critical infrastructure needs and thwarting their ability to diversify local economies based upon agriculture, forestry, and mining. The State of Virginia, along with several other states, has initiated programs which were targeted to partially offset the reductions in federal spending. We have recognized that rural Virginia lags significantly behind our metropolitan areas in income and employment growth. While Virginia has undertaken numerous program initiatives to help develop the rural areas of our State, we have not been able to meet all the needs or replace all the federal funds that were once available to rural areas of Virginia.

Question: What are the most helpful actions that the Federal government could take to encourage and promote job growth through economic and business development in rural areas and smaller communities?

Answer: The federal government should work with state and local governments, along with the nonprofit and private sectors, to promote job growth and business development. Experience tells us that only through the combination of federal, state, local, private, and nonprofit resources can we begin to address the critical developmental needs in rural Virginia. Additional funds, which can be combined with state and local resources, are essential. The federal dollars that can be teamed up with state and local dollars addressing state priorities as well as national objectives can be extremely effective. A rifle shot is needed, rather than a shotgun blast. The larger the caliber rifle, the better.

Question: In your experience, what can rural communities do to attract investment capital?

Answer: Rural communities first must organize themselves in order to foster economic development in their areas. The creation of local organizations, whether they be public, private or nonprofit, to plan, promote, and in some cases develop business ventures, is imperative. State and federal support to these local development organizations is critical to their success. In most cases, these development organizations must be regional in scope. There is not a sufficiently critical mass at the small community level by which local citizens can carry on an active developmental program. By joining together and pooling resources, rural communities can create a level of activity which can be sustained over long periods of time. If rural communities are to have an impact on their future, efforts must be made over several years.

Question: What are your views on designing revolving loan funds so that at some point the fund obtains an equity interest in the business that has been loaned money and then immediately sells the equity interest, thus sharing in the growth of the business?

Answer: Virginia has been very hesitant to initiate or encourage equity investment in businesses or provide venture capital. Once the public sector or nonprofit sector, using public funds, becomes an equity investor or a partner in a business, the level of responsibility in the business increases significantly over the level of responsibility as a fixed asset capital lender. Once you become an equity interest or partner with a private business, you have a responsibility for the management of that business. Virginia has maintained that public dollars should not be at risk to the extent that they are in equity and venture capital deals. Virginia has also taken the position that it is not the role of the public sector to become deeply involved in the management of individual private businesses. This function is best reserved for the private sector. Virginia has supported fixed asset and working capital programs utilizing public funds. These programs are secondary to private lending activities in rural Virginia. Virginia does not wish to be in competition with private lending institutions, but only supplementary and complementary.

Question: In your experience, is lack of access to technical, financial and business information a significant impediment to starting and running a business in rural areas?

Answer: Small businesses in rural areas need general management assistance. At times, this management assistance is technical in nature. Other times, it is based upon longstanding, sound businesses principles. Many of our entrepreneurs do not have the education or training to operate a business. Often, they have the technical knowledge necessary to produce the project, but lack many of the basic management skills necessary to operate a business. The federal government can help support business assistance centers in rural America. The Small Business Administration provides limited assistance in this area. Many of the states have utilized this assistance and expanded upon it. Virginia is one of those states. Virginia's Center for Innovative Technology finances business incubators and entrepreneurship centers across the Commonwealth, many of which are located in rural areas. Experience has shown us that while technology may be available to existing businesses, improved business management techniques are needed prior to improvement in technology.

STATEMENT OF MURRAY D. LULL, PRESIDENT, SMITH COUNTY STATE BANK & TRUST CO., SMITH CENTER, KS, AND CHAIRMAN, EXECUTIVE COMMITTEE, AGRICULTURAL BANKERS DIVISION, AMERICAN BANKERS ASSOCIATION, WASHINGTON, DC

Mr. LULL. Thank you, and good morning. My name is Murray Lull. I come from a rural community of 2,500 people in north central Kansas and I am a fourth-generation president of our small bank there. I am also chairman of the Agricultural Bankers Division of the American Bankers Association.

My concerns and those of the American Bankers Association bring me to your committee to convey to you the sense of need, frustration, urgency, and, of course, the hope that a sensible and timely effort might be made to develop and sustain rural America.

In spite of the efforts I have seen my community make to keep it viable, Smith Center, Kansas, is facing the same formidable erosion of our culture that I am sure countless thousands of other small communities are also encountering.

In spite of the efforts of our community development groups, our city councils, our county commissioners, our private venture capital formations, the efforts of the Small Business Administration and Farmers Home Administration, and certainly the efforts of small banks like mine, there is still a strong sense that we are losing the battle of our rural communities' lives.

While the American Bankers Association represents the very small banks like mine and the very large banks, we all certainly have a stake in what is happening in America's rural areas.

We certainly commend this committee for holding this hearing to explore the difficulties facing rural America. The points we would like to make are these.

One, the American Bankers Association and our banks want to be involved and to make available whatever resources we have in this effort.

Two, banks are now and have been major players in rural development and assessment efforts, but we and those we work with need more help in fighting the erosion of our rural population, our economic activity, and our infrastructure.

Three, in any economic activity, capital makes many things possible. Provision of capital is one of the key banking functions in our economy. When it comes to capital infusion in America's rural development efforts, we need to observe the restraints on banking that very correctly center on the safety of our deposits.

It is very important in rural communities that the people of our communities trust in our depository institutions, and people do trust their banks to keep their money safe. We cannot just make grants of our depositors' money in the name of rural development. We want to stress that.

Bankers are sometimes accused of lacking concern for those who wish to borrow funds from our banks. But some borrowers, by the measurements we must adopt, lack the capacity to repay those funds. Very simply, our banking regulatory system is designed to protect our depositors' funds. Any credit we extend must be adequately collateralized and based on adequate cash-flows to reflect the borrower's ability to repay.

We are talking about the fundamental need for equity capital, and that is what is missing in so many otherwise deserving rural development efforts. Equity capital must exist to support the borrowing that is necessary. We are quite interested in working with Congress to develop, enhance, and possibly redefine whatever equity-forming mechanisms currently exist.

It has been painfully clear over the last decade that the lack of attention to the principles of credit has produced disastrous results, and yet we continue to feel our responsibilities as bankers to serve our communities.

Let me tell you a true story that illustrates the desire of banks and the constraints that they sometimes have. In my community, two young women wanted to start in Smith Center, Kansas, a restaurant—equivalent to a McDonald's. They had no collateral, no money, and no experience, and yet we knew that they knew how to work hard. They had that fabled spark that makes businesses work. We also knew our community had a real need for such a restaurant.

Our bank took a chance on these young women and loaned them the money they needed to start the business. Smith Center, Kansas, gained this new restaurant known as the Jiffy Burger. Business went well. They came back to us; they wanted to expand, and again we loaned them more—based, again, not on collateral, unfortunately, but the fact that our community had this need and these two sisters had the desire to make things work.

Because of their determination and the chances that we took in providing them funds, we now have a new business in our community that provides employment and a place for Smith Countians to get a great meal.

My point is that we knew that our loan to these young, determined sisters could very well be criticized by our regulatory authorities because of that lack of collateral, and the equity that is necessary in this kind of operation.

What I mean to say is that if we had been examined by the FDIC the very next day after the day that we made the loan, it most likely would have been classified as a sub-standard loan. It is the type of loan my great grandfather used to make in his day based on character and community need. But it is the type of loan that if made today, and followed by too many similar loans to too many people, can certainly cause a bank great difficulties.

We must look carefully at what the real problems are in rural areas as we seek to develop these solutions. Sustaining rural main street businesses, and starting new ones and retaining our infrastructure all require capital—capital that must have the element of equity capital to go with the borrowed capital our banks can provide.

While our banking system is the most logical delivery system of this capital bar none, we must again remember that the solutions must address the protection of our depositors. While Federal credit guarantees have in the past provided this deposit protection, the guaranteed loan programs can be expanded and enhanced.

Thought must be given to the parameters and criteria in guaranteed loan proposals. Increasingly, loan applications now submitted for guarantees to the Small Business Administration and Farmers

Home Administration actually can have required standards for approval greater than some of those loans that we are making without guarantees. My Jiffy Burger loan would be a case in point.

Ironically, those agencies that are established to protect the depositors' money from risk are now themselves very concerned about the risks that they take on through these guarantees. The guarantees ought to allow more thinly-capitalized businesses to be favorably considered. These are typically the proposals that we see in rural America.

One thing I would like to make very clear is that there is not a lack of credit availability in our rural areas. There is, however, at times a lack of creditworthiness. There is absolutely no lack of desire on the part of banks to provide capital to our rural businesses and farms, but there is at times a lack of a way to do it and, at the same time, protect the people that make these funds available in the first place—the depositors.

I am here today to tell you that America's banks are very serious about keeping our rural communities alive and well. The challenge that we have is that you and we decide what is needed, what the tradeoffs are and, again, how to keep our depositors safe and sound.

Mr. Chairman, the events of the 1980's have clearly demonstrated that the health of our community banks is very tightly linked to the viability of our local economies and, certainly, vice versa.

The banking industry therefore has an important stake in strengthening and diversifying the economic basis of small towns and rural areas across America. Our banks offer experience, knowledge of local markets, financial expertise, and, to you, a serious and sincere commitment to the revitalization efforts being made by your committee. We look forward to working with you and your committee in the future on this very important issue.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Lull. I appreciate that a great deal.

[The prepared statement of Mr. Lull follows:]

STATEMENT OF MURRAY D. LULL, PRESIDENT, SMITH COUNTY STATE BANK AND TRUST COMPANY, SMITH CENTER, KANSAS

Mr. Chairman and Members of the Committee, I am pleased to be here to participate in this hearing on behalf of the American Bankers Association (ABA). I am Murray Lull, President, Smith County State Bank and Trust Company in Smith Center, Kansas, and I am currently Chairman of the Executive Committee of the Agricultural Bankers Division of the ABA.

Our Association's members represent about 95 percent of the industry's total assets. Approximately 85 percent of our members are community banks with assets of less than $100 million. But one of the advantages that the American Bankers Association has in this discussion of rural development is that we have access to the resources of small community and agricultural banks, regional banks and money center banks, all of which have an interest in restoring economic vitality to the rural communities of this country.

We are concerned about the current situation. For example, I am from a rural community of 2,500 in north central Kansas. Despite the serious efforts that I have seen my community make and in which my bank has participated, I see a continued erosion of population and economic activity. I am not alone. Many other bankers in other communities share my concern. For that reason, the American Bankers Association has made rural development one of our focal issues for 1989. I am pleased to assure you that the Agricultural Bankers Division will have a major role in this effort.

I do want to note that the ABA recognizes that the problems facing rural communities are inter-connected. Education, health care facilities, water systems, sewer systems and other factors are very much a part of any rural development equation. Credit is only one aspect of the total picture. My comments are primarily directed at the appropriate role for banks, but we are involved in discussions with representatives of these other key areas. We must all work together in our communities, and we should work together here at the federal level as well.

Mr. Chairman, rural communities (especially those heavily dependent on agriculture and natural resources) are going through a period of wrenching change. As employment opportunities disappear, skilled workers and the young are migrating from rural to urban areas in search of jobs. Local governments in agricultural areas are faced with reduced tax bases and deteriorating infrastructures.

The magnitude and intransigence of these problems have all been well documented. Solving them will require the best efforts of both the public and private sectors. We commend this committee for holding this hearing to explore the difficulties facing rural America and to contribute to the development of policy initiatives to begin revitalizing our rural communities.

Experts in agricultural economics believe that the farm sector is stabilizing. However, the severity of the recent cyclical downswing of U.S. agriculture taught us a valuable lesson about the need for economic diversification in our rural communities. Without diversification, we will remain extremely vulnerable to future fluctuations in the farm economy.

Economic diversification will not be easy to achieve. Policies which encourage public and private investment in rural America are a vital ingredient in rebuilding the economic base of farm communities. As the basic comprehensive financial intermediaries in rural areas, banks must play a central role in this investment process by providing credit to assist new businesses, to encourage diversification in agricultural production, and to fund improvements in education and community infrastructure.

Local banks have a major stake in the economic health of their customers, and they are uniquely qualified to meet the credit needs of their communities. But banks must also operate within the parameters of safety and soundness laid out by bank regulators. I want to stress this point because bankers are sometimes accused of lacking concern for those who wish to borrow but lack collateral and/or adequate cash flow.

The banking regulatory system of this country is designed to protect banks' depositors. To do that, the regulators examine our loans very carefully to be certain that they are adequately secured with an appropriate cash flow. If the regulators determine that a banks' loans are not of sufficient quality to protect the safety and soundness of the institution, they classify them as substandard. A number of classified loans can lead to very negative consequences for the banks' management and directors. The bank may not survive.

My point here is that we must look carefully at what the real problems are in rural areas as we seek to craft solutions. If we want to start new businesses from scratch, we need a better mechanism for getting venture capital to rural areas - not necessarily loans. If we want to lend money to borrowers without collateral or experience as a public policy, then we should look at the appropriate mechanisms to do that while continuing to protect the safety and soundness of our commercial banks. For example, we should examine the existing programs of the Small Business Administration and the Farmers Home Administration and consider the options for modifying and expanding them.

However, we should not simply assume that our existing institutions do not want or are not able to achieve the public policy goal of providing capital or loans to businesses in rural areas. There are impediments to some of this involvement that result from bank regulation. Therefore, we must identify carefully the goal that we seek and then look for appropriate means to achieve it. As we do this, we should not ignore the already existing goal of protecting the safety and soundness of our financial institutions.

Federal loan guarantees offer one way to allow banks to provide the credit necessary to build a diversified economic base in rural areas while at the same time protecting the financial integrity of the banks. Our Association has consistently opposed the use of direct federal loans, believing instead that guaranteed loans made through local lending institutions are a more appropriate way to provide credit to residents and businesses in communities.

Loan guarantees can be designed to suit various types of business needs. For example, a guaranteed line of credit offers a flexible way for businesses to handle cash flow problems and to assure businesses that their operating capital needs can be met by a local bank. A federal guarantee would allow a bank to extend such a line of credit even to new business ventures which might otherwise not have the necessary collateral to secure the loan to the satisfaction of bank regulators. The Farmers Home Administration's Business and Industry guaranteed loan program for businesses affected by the drought authorized by the recent Disaster Assistance Act is an example of the use of the program.

As the owners and managers of small businesses seek to start up and expand, they need not only access to capital but sound financial advice as well. A financial plan is critical to the success of all business ventures, but may be beyond to reach of some farmers and small business people. One way to help local businesses gain access to professional financial counseling would be to assist each state's extension service to contract with local financial institutions. The extension service would then act as a conduit through which businessmen in rural areas could tap the financial expertise of local lenders in drafting their financial plans.

Many experts have stressed the need for improvements in rural communities' infrastructures to attract new businesses and to retain existing businesses. In particular, roads, water and sewer systems, utilities, and health care facilities are essential ingredients to support long range economic growth. Obtaining the necessary funds for such projects is made more difficult for small towns because banks cannot underwrite revenue bonds. We realize that this committee does not have jurisdiction over this area of revenue bond underwriting, but we do want to mention it because it does affect rural communities directly.

For some communities, federally guaranteed loans may be necessary to help fund infrastructure improvements. Such loan guarantees targeted towards public works programs may enable a local government to provide essential community services that it otherwise could not afford.

Mr. Chairman, the events of the 1980s have clearly demonstrated that the health of a bank is inexorably linked to the vitality of its local economy. The banking industry, therefore, has an important stake in strengthening and diversifying the economic base of the small towns and rural areas across America. Bankers offer knowledge of local markets, financial expertise, and a serious commitment to the revitalization efforts being made by your committee. We look forward to working with you and your colleagues on these very important issues.

The CHAIRMAN. Mr. Kitchen, please proceed.

STATEMENT OF WILL KITCHEN, TELECOMMUNICATIONS CONSULTANT, EDINA, MN

Mr. KITCHEN. Mr. Chairman, I am very aware of what goes on in rural America. I grew up in Hermon, Maine, which is 6 square miles of not a whole lot, and I have taught——

The CHAIRMAN. When Mr. Lull mentioned being from a town of 2,500, I leaned over and told Senator Lugar that is the median community in Vermont—2,500. My own town where I live has been holding at 800 people for about 100 years and in the last 10 years has experienced enormous growth. It has gone from 800 to 1,200 people. That is a 50-percent growth and we are just wondering what we are going to do to keep up with that. I mean, the next thing somebody is going to want is a traffic light there. [Laughter.]

Then the whole thing is going to fall apart, but please go ahead.

Mr. KITCHEN. And there goes the neighborhood.

The CHAIRMAN. There goes the neighborhood.

Mr. KITCHEN. I have also taught in school districts in Cambridge and Braham, Minnesota, and I have taught grades K through 12. I think part of the problem was that my basketball teams never won.

But I am working across the country now in approximately 30 States in over 400 school districts developing telecommunications networks for education, and telecommunications technology is playing a significant role in how the United States and the world conducts business and educates students.

Education plays a very important role in economic development and we need to work with our schools around the country to make sure that they can provide equitable opportunities for those rural students.

When I taught in Braham, Minnesota, in the early 1980's, it was a school district of less than 1,000 students, K through 12, and we had no foreign language classes, no advanced math classes. Really, we were only an hour-and-a-half away from Minneapolis-St. Paul, and the first year that a telecommunications system was put in—and let me explain what I mean by a telecommunications system.

It was a system where a teacher can be in one school district teaching to students in multiple school districts at remote sites. The teacher sees and hears the students. Students see and hear the teacher, and all the students see and hear each simultaneously via telecommunications networks.

The first year of operation, those seven school districts were tied together with a common network offered 21 new high school courses, in addition to college classes, to the students and to the community, and it has had over 500 community residents taking courses over the network.

We need to take a look at these types of systems around the country, and I want to show you an example of a project in Minnesota. It is Upsala, Minnesota, which has 500 students K through 12.

This project was a business partnership between the school districts and a rural telephone cooperative. These partners put together a fiber network building on existing infrastructure, where possible, to allow an interactive telecommunications project.

So, now, the students in Upsala, Minnesota, have the opportunity to take courses in foreign language, math, and advanced sciences. They can pick up courses from St. Cloud State University without having to drive, and these are courses that these students did not have access to four years ago. Through telecommunications development in rural America, these systems have provided that opportunity.

Another project that I worked on—13 school districts, tied together, offered an agribusiness stress management workshop for the entire community and it was very successful. It shows how the schools, working together with the local community, can provide more educational opportunities for students and community members.

I want to show you another example of a rural school district with a need for telecommunications, and this is in Moffat County, Colorado. If you take a close look at this map, you will see the distances are great and you have Powder Wash, which has five students and one telephone in the community; it is a radio telephone at the mining office.

If you want to call the teacher, you have to call the mining office. The person in the office runs down the street to get the teacher and then the teacher comes back and gets on the telephone.

These schools also have satellite down links already. They also have a computer for every student in Browns Park and Powder Wash. However, we need to have the high-capacity telecommunications networks that can provide more than just these stand-alone systems. This system hopefully will be up and operational, if we can find the funding for it, in the very near future.

I want to make a point here that the current Star Schools bill, that was passed 2 years ago, is providing money for rural education and telecommunications is very important and meets some, and I emphasize some, of the needs of rural schools.

However, neither of the projects that I mentioned—or, actually, none of the projects that I have mentioned could have received funding under the Star Schools bill because neither is a statewide or multi-State project, and there is more happening out there than State projects, statewide projects or multi-State projects.

Regions of the country need support to develop local control networks where rural communities can develop their own curriculum materials and their own opportunities for businesses and for their students.

What I would like this committee to consider in a rural economic development legislation package that is a rural telecommunications model to provide funding for multiple technologies, the flexibility of developing electronic highways to connect our rural communities, to offer telecommunications as a community resource, to encourage business-education partnerships where business and education are working hand-in-hand to meet the needs of both parties, to encourage K–12 and higher education cooperation, to incorporate medical and health care services into the telecommunications networks, and to emphasize cutting-edge technology as well as cutting-edge applications, and also to emphasize local control of programs and content, and finally to use existing telecommunications infrastructure resources wherever possible for regional land-based telecommunications networks.

I am very encouraged that this committee is looking at legislation of this nature and if there is anything that I can do in the future to help with its passage, I would be very interested in being a part of it.

One final comment is the Office of Technology Assessment is doing a study on telecommunications and distance learning right now looking at the economic and educational implications of telecommunications technology, and that report will be due this summer and I encourage all of you to take a look at that.

Thank you.

[The prepared statement and map of Mr. Kitchen follow:]

Statement of Will Kitchen, Telecommunications Consultant Before the Senate Agriculture, Nutrition and Forestry Committee April 5, 1989

Mr. Chairman, telecommunications technology plays a significant role in how the Unitied States and the world conducts business and educates students. How often do we use and rely on telephones, facsimile machines, computers, and video technology to obtain information, carry on business, and learn? More importantly, keeping a competitive edge in business and education means having access to a telecommunications infrastructure which can deliver voice, video, and data information quickly, reliably, and inexpensively.

How is telecommunications perceived and used by various aspects of our society? Educators, business leaders, and health and human services personnel have unique, yet similar needs, perceptions, and applications of technology. In general, their perception is that telecommunications is a powerful tool for increasing productivity, improving commerce, providing educational equity, and sharing valuable, limited resources. More and more, rural communities view telecommunications as one of the few ways by which they can overcome isolation and long distances to compete with their urban and suburban counterparts and provide basic and enhanced services to their residents, businesses and students.

By looking at the general needs and applications of these three major groups--educational, economic, and community--within rural communities, we can better understand how the federal government can encourage and nurture rural economic development by supporting development of an "infrastructure of electronic highways."

Education

Telecommunications can provide many educators in rural areas with a means to offer equitable educational opportunities for their students. School districts and post-secondary education institutions are utilizing alternative technologies (satellite, fiber optics, microwave and coaxial cable) and delivery systems (cable television, computer networks, and telephones) to deliver educational programming to rural communities. Many of these educational initiatives, however, are in the early development stages and are only addressing the superficial needs of rural educators.

Operational satellite networks provide a limited number of course offerings to school districts while the other land-based technologies (fiber optics, microwave, and cable television) find it difficult to obtain outside funding to develop regional networks needed to offer numerous educational options. The Moffat County School District located in northwestern Colorado is an excellent case in point. As outlined in the accompanying map, Moffat County has schools located in five communities. The student populations in these five locations are 3, 5, 11, 65, and 2512. The distances from the largest school to the smaller ones range from 30 miles to 120 miles. Consolidation is not feasible and the schools are currently using satellite programming and computers to increase educational offerings. However, these technologies alone cannot adequately meet the various needs of these students. The Moffat County School District administration is now working with U S WEST Communications, the district's local telephone company, to explore technological options available for providing two-way interactive television links among all the sites so that numerous locally-controlled programs could be shared among the five sites. Unfortunately, the Star Schools Program Assistance Act will not provide funding to regional projects within states so the Moffat School District has no federal source to turn to for assistance.

Eventually, the Moffat County schools could be interconnected to other school districts and post-secondary institutions within Colorado in order to access a wider range of locally developed and controlled educational opportunities for the students, staff, community residents, and local businesses. The lack of federal assistance for rural projects like this one will greatly limit the ability of the students and local communities to compete with more populous communities.

Business and Economic Development

Rural businesses need these electronic highways as much as rural schools. Businesses, in order to be competitive, must have access to market information, research findings, data bases, advanced training and educational programs, and an easy method of linking up with other small businesses with similar needs in order to share information, training, and experiences. Telecommunications shrinks the distances beween small rural business and its markets, suppliers, information sources, and governmental agencies and allows them to compete successfully in the global world market. This is important as statistics indicate that the growth in employment opportunities comes from small business, not large corporations.

One concept for using telecommunications as an economic development tool is to develop links among businesses, manufacturers, universities, consumers, suppliers, investors, and new markets. In theory, regional telecommunications centers would be set up throughout each state to interconnect local schools, colleges, government agencies, health and social services, and businesses together on a network that would meet many of the local needs. This network would then be interconnected into other regions on an as needed basis for sharing large data banks and research universities. Together, these regional clusters, interconnected by a telecommuications superhighway or backbone would form state-wide networks.

By having interactive voice, video, and data capabilities as well as multiple origination points, the network user has the flexibility of obtaining the method of information delivery which is the most effective and beneficial.

Health and Social Services

Rural health care facilities are experiencing declining funding, negative population shifts, and increasing inability to find medical specialists to staff their facilities. Regional telecommunications networks can allow hospitals and remote clinics in rural communities to share training, diagnostic services, test results, x-rays, and emergency procedures. This will ensure that rural patients have access to the most current information available while alleviating the feeling of isolation among rural medical professionals and their counterparts in urban and suburban settings. Social services also are often hard put to provide all the services their clients need because of limitations of time and distance. Using telecommunications networks, certain diagnostic reviews, conferences, and professional information can be presented in a fraction of the time required to travel from site to site. Case workers can view their clients in a school setting, for example, instead of actually attending the class, thus allowing the workers to screen more of their clients more often.

The Rural Telecommunications Model

The Senate Agriculture Committee must take a bold stand in providing the direction necessary to implement an innovative telecommunications solution to many of the needs of rural America. When considering this bill further, the Committee should emphasize these issues:

*supporting regional, land-based networks interconnecting multiple users for multiple applications that will allow for utilization of local educational expertise

*avoiding the proliferation of redundant, single application networks by using, to the greatest extent possible, existing local telecommunications infrastructure (e.g., fiber optic networks)

*creating business/education partnerships for using and developing the networks

*using the telecommunications network as a community resource

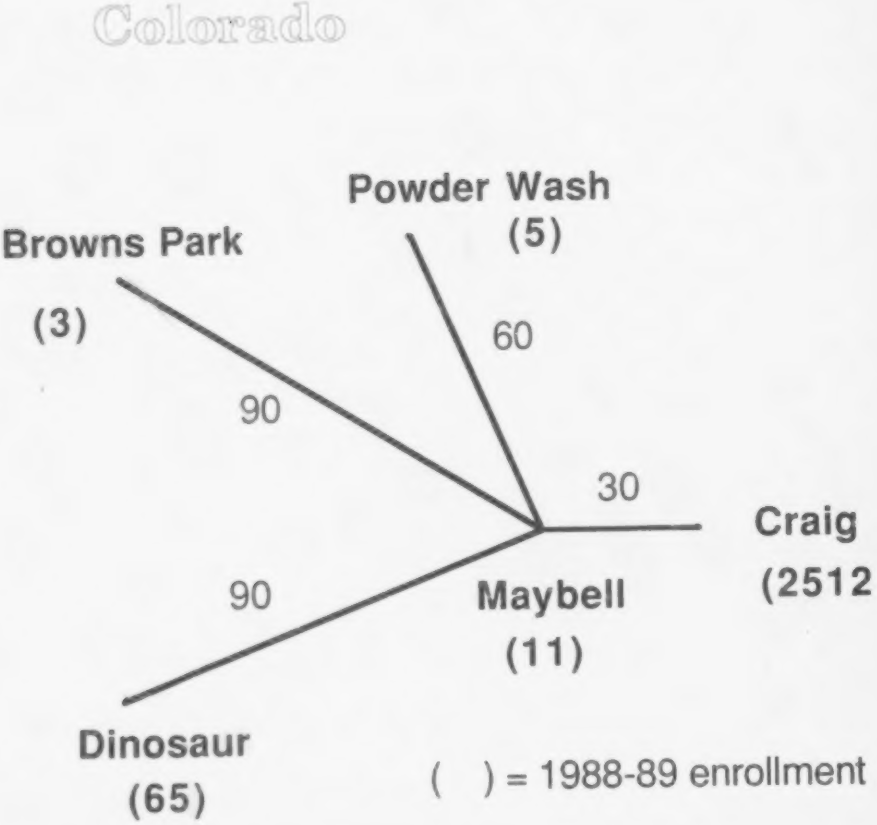
*stressing the use of telecommunications infrastructure and the business/education partnerships as economic development tools

*emphasizing nontechnical aspects of the network (e.g., educational planning and training, community applications and needs)

*recognizing the need for network flexibility to meet growing demands of rural communities.

In conclusion, the federal government has the opportunity to take the pieces of existing telecommunications concepts and projects and encourage the development of a comprehensive rural telecommunications service delivery model that will keep in perspective the interdependence of the rural community, have concern for the people who make use of the technology, and be in accordance with local rural control, culture, and needs.

(Map follows:)



The CHAIRMAN. Thank you very much.

Let me start off with a question to Mr. Lull. We asked the Economic Research Service to give us an idea of what the conditions are of rural unemployment, and they say what I think a lot of us knew instinctively, anyway, that rural unemployment is much higher than urban unemployment.

Per capita income is 30 percent lower in rural areas than urban areas. Poverty rates are 30 percent higher. Just about every economic indicator is much, much worse in rural areas than urban areas. They report that the traditional rural industries—agriculture, mining, forestry—support fewer and fewer workers; lagging local economies; reduced business activities.

Now, what is your assessment? What is your own basic knowledge? I mean, as a banker, you have to be particularly interested in what is happening in rural economies. Is your own experience similar to the kinds of things I have just mentioned?

Mr. LULL. It certainly is and, of course, the ag banks across the United States, some 4,000 to 5,000 of them, are in all these areas, and so you get a wide range of views of the economy.

But I think that the agricultural economy, in our estimation, is fragile. It enjoys the good years and suffers through the bad, and our fingers are certainly crossed as far as the moisture situation is concerned this year.

Retaining population is a constant concern in the rural areas, and I think the comments that have been made here this morning sum it up very well.

The CHAIRMAN. You talked about loan guarantees to encourage bank lending in rural areas. What are some of the other options beyond that that you might have for venture capital in rural areas?

Mr. LULL. Well, a good example is what has happened in my home State of Kansas where the banks in the State of Kansas, in a cooperative effort, sought to raise $20 million to be leveraged for venture capital purposes in small businesses.

And banks across the State participated very enthusiastically in this. Banks have raised somewhere between $5 to $10 million and the State is matching what we have in the fund. There are some things to work out on that project, and yet it certainly shows signs that will benefit start-up businesses and maybe handling the generational transfers of some businesses across our State.

The CHAIRMAN. What do you mean by generational transfers?

Mr. LULL. Well, on my main street, for instance, we have approximately 30 businesses. Our main street is full, as they say, and yet I see owners or businessmen who are 60 years old that are going to need to do something with their businesses. Who is going to buy it to keep our main street full? These are the sorts of concerns that are very appropriate to be addressed.

The CHAIRMAN. Let me follow another question with Mr. Kitchen. Your telecommunications projects are in 30 different States, so you have developed quite a body of experience with what works and what doesn't.

Tell me some of the major impediments you have to establishing educational distance learning projects. What are some of the pitfalls?

Mr. KITCHEN. OK. One of the major impediments to developing networks is funding. I said earlier that I have worked with over 400 school districts around the country. There are two dozen operational projects out of those 400 school districts, so funding is a major concern. Looking at seed money or catalyst money is what is very important.

Other aspects to pay close attention to are the nontechnical components of getting people to work together and making sure that the technology is used effectively. Teacher training is very important. Planning, staff development are all issues that should be looked at when dealing with or incorporating telecommunications into the rural community. But, primarily, funding is the major obstacle that I hear about as I go around the country.

The CHAIRMAN. Everything else sort of follows from that, teaching them how to use them, and so on?

Mr. KITCHEN. Yes. It is amazing. There is nothing more exciting than seeing a system turned on for the first time and teachers teaching, students learning, and seeing the student who has not had access to advanced courses, or even some of the basic courses because of the distances that separate the school from resources. It is exciting to watch what takes place.

The **Chairman**. There is no question in your mind that this also provides a better educated workforce and provides some of the basis you need? If we can provide the jobs, you can provide through this better educated people to fill those jobs?

Mr. **Kitchen**. No doubt in my mind that the students who are involved in telecommunications networks in rural America are receiving a better education than they were before the telecommunications systems were incorporated.

The **Chairman**. Over the years, I have also watched the possibility of these same kinds of telecommunications networks being used in rural hospitals. There is no question that that can help very much with diagnostic tools, I assume.

Mr. **Kitchen**. That is right. In addition to that, you could have schools, community colleges, and universities connected to businesses to provide additional training for the workforce, so it is not only training or educating the student to become a better prepared worker, but also retraining the current worker so that they can keep up with all of the things that are going on within the workforce.

The **Chairman**. Thank you very much.

Senator Lugar.

Senator **Lugar**. Thank you very much, Mr. Chairman. Let me just key in for a moment on some comments that I have heard. Senator Kerrey made, I think, a very important point in talking about profit as a central focus.

Certainly, your testimony, Mr. Lull, has gotten back to the point that at some stage the activities that are being fostered have to make sense economically. They don't have to in every instance, and there may be some very good reasons why the rest of the country would want to subsidize rural America and, to some extent, we have been doing that operationally, quite apart from developmentwise.

But I would just comment that at some point as I hear the thought that there are businessmen on main street that are 60 years of age or more and they are looking for people to buy their businesses, it comes to the heart of the problem.

Around this table, the Senators who are located here today all come preaching to the choir, and so do you, in a way. We all have a very vested interest in making rural America, and particularly rural areas of our States, more vital.

At some stage, and I don't want to be the devil's advocate today, but someone who does not share those same biases could come into this party and say why is it of interest to the United States of America as a whole to be concerned as to whether large stretches of our country are populated and active with people.

For example, if we had a group here today from the National League of Cities or the U.S. Conference of Mayors—I have attended similar sessions of that variety—they would describe precincts and wards of inner cities of this country that are vastly depopulated and appear to be going down very rapidly without, they believe, visible concern by the Federal Government, or even State governments. And they believe that that is going to be a destructive trend in our country, quite apart from the cities they serve.

So they come asking the rest of the country to take an interest in inner city poverty or depopulation or lack of business opportunity. And enterprise zone ideas abound as to why people might be enticed to come into situations which economically they have chosen not to do.

Can you offer, either of you, some philosophical underpinning for this whole operation as to why 100 Senators from various States ought to be interested in rural development, how we develop a constituency beyond simply sentiment or a nostalgia or a feeling which abounds in our country generally that rural life is a good thing?

But, more specifically, both of you are living there now sort of on the firing line, and why do you believe it is in the interests of the United States of America as a whole that the rest of the country become involved economically and spiritually and move ahead in this situation?

Mr. LULL. That is a good question. I think there are two things that possibly come to the surface that aren't exclusive to rural America. Number one, we need equity capital of some sort to replace debt on the farm, and in the business community.

The second thing is that, along with that equity, banks need the ability to make sound loans with guarantees in a lot of cases for businesses of high risk. Neither of those two things really are only a rural concern.

Our concern here obviously is rural, but developing a system like this could very well aid the inner cities as far as their business retention and their population retention. So what we are asking here may very well have application for urban problems.

But there is something about America that looks to its rural life, and I think that as a policy matter if we want to keep rural life healthy and have some people out there, it is very appropriate that you and this committee address these issues.

It is a way of life, but it is also a business. I appreciated Senator Kerrey's remark that there has to be an economic purpose for these businesses. Banks have obviously the same goal in mind.

So if we can develop a system that can provide equity capital and if we can enhance our guarantee programs, I think the application can go much further than just the rural sector.

Senator LUGAR. To what extent are we looking at a cyclical problem as opposed to one that simply has a trend line downhill all the way? In other words, can you make a comment as to whether we would have had the same discussion in the mid-1970's or as we moved toward the height of rural land values in most States, and whether having reached perhaps the nadir of that cycle and seen some up-kick, are we likely to see a trend move ahead?

There are some optimistic people, as you know, in rural land circles who believe that as the population of the world increases, the failure of other economies or other countries to be able to support their people and thus the demand for our exports is likely to increase. The fact that the reserve programs have worked, some feel, almost too well, and that the number of acres available to produce means that we are going to see a rising trend.

So to what extent could you see a recapitalization of many of us in rural States as acres that might be worth $1,000 become worth

$2,000 or $3,000, and the collateral that is missing behind these loans, at least among those who still have the land in the situation, now has very different sorts of values?

You know, is this not, in fact, one reason why certain sections of the country do have viability because, for various reasons, markets have put different values on their assets, whether it be residences or factories or apartments, or whatever they had, and they have sort of moved on with that capital, then, to refurbish other situations?

Mr. **Lull**. Certainly, the recovery of land values that you touched on is a mixed bag. I don't see the mistakes soon repeated that were made in the 1970's and early 1980's. I think a population base is the very fundamental thing that we are talking about in the rural problem, and I see the trend toward the decreasing population continuing.

I just do not see enough opportunity that presents itself vis-a-vis the population that is there to deal with it. In my county, there are a total of 5,500 people. It is going to take a certain type of person that is willing to either live, farm, run a main street business in that area, and I think just sustenance of our level might be all that we should hope for at this point.

Senator **Lugar**. But should we be taking a census question, then, of people who are in rural America as to how many want to stay there? In other words, sort of the curbstone of polls that I take among young people in high schools indicates there are not many who want to stay in their rural communities.

Their parents may find this satisfactory, or the 60-year-old store owner, but not their children, who see a very different view. And there appears to be no set of circumstances that would change their minds.

Mr. **Lull**. This is a tough question. I am the fourth generation in my community and my father, my grandfather and I were all discouraged from coming back to our community, but we did. And I think there are going to be those core people that do think it is important to live in rural communities.

It is a chicken-and-egg situation. If you are going to make things good for those that want to stay, I think that is where these efforts are going to pay off by reinvesting in the countryside. Then there will be a reason to stay. If the trend continues that equity capital leaves these areas, then the end result is self-fulfilling. There will be no incentive to stay.

Senator **Lugar**. Mr. Chairman, just as a final comment, and it is not meant to be self-congratulatory to the committee, but a comment has been made about how the development legislation was laid aside in a way because of our emphasis upon the drought legislation last year.

I think the case could be made very strongly that the drought legislation was perhaps the most constructive rural development work we could have done in that period. In fact, the case made to our fellow Senators, as you will recall, because only 19 States had a severe problem—and some others didn't have such a severe problem even as time went on, but those that did really were in difficulty.

And we made the case that it was important that there be people throughout our entire country, that each of our counties be populated, and that without this emergency legislation, we really saw an irreversible predicament in terms of loss of capital and income.

Now, that was reversed, and I think we all now know that all the outlays that were predicted and all the dire consequences of the bill did not come to pass. Mercifully, yields in many cases were better; outlays were less.

But, still, the underlying safety net in terms of the opportunity we now have was placed by the legislation. So I think we all count that as a victory, really, for maintenance, if not for further development, because it sort of kept the ball in play.

The CHAIRMAN. Well, I agree with you. In fact, I heard over and over again as we went around the country in some of those hearings on the drought legislation that it would actually take communities a decade or more to recover if we did not put that safety net there.

Incidentally, before I yield to Senator Conrad, in talking about the percentage of people that want to leave, the Rural Voice Foundation did a poll last year and found a very interesting thing.

A large majority of rural Americans like the lifestyle, like the fact of low crime, a clean environment, neighborliness, and so on, and would like to stay there. But, also, the majority of them feel that they or their children will have to leave the area just to get economic advantages.

The majority, one might say on one hand, wants to stay there, but they also feel that to get jobs, they are going to have to leave there, similar to what I recall when I graduated in the late 1950's from high school in Vermont.

We have been fortunate; we have turned that around and have about the lowest unemployment rate in the country. But I recall Senator Daschle—something that probably moved me as much as anything I have had in these hearings—went into a high school in South Dakota. I believe you were there, too.

A great high school; we looked at these students in there. We went in and talked to them in the gymnasium; wonderful students. They were bright, attractive young men and women. They would be a credit to any community.

We had a Q and A for some time, and then Senator Daschle asked the question how many of them felt that they would have to leave there to find a job, and I believe, Tom, virtually every hand went up, and it was a very sobering thing. It is the life blood of that whole community, the life blood of that town; it is the next generation.

So, in any event, let me yield to Senator Conrad.

Senator CONRAD. I just had a similar experience. I was just in a town in my State and asked a similar question. I was attending an assembly of students. There were probably 150 to 200. As I recall, two or three hands went up of students who thought that they could find a job in North Dakota. I asked them how many would want to stay if there was an opportunity. A significant majority raised their hands. So it is an interesting problem that we confront.

And just on the question of the drought bill, Mr. Chairman, from my State's perspective, without the drought bill my State would have suffered a disaster which would have taken a decade to recover from. I am not sure we would have ever recovered. It would have been such a body blow on top of what we have already experienced.

On the question of why the rest of the country ought to care, Senator Lugar, I think you have really asked a central question that deserves a serious answer from those of us who are advocates of rural development.

I just conducted a series of community forums on the farm program with our Congressman. We did nine of them across North Dakota and it was very interesting to get people's response on that question. Why should the rest of the country care?

And their response was that the Government was not subsidizing farmers. In fact, the subsidy is really running quite the other way. What we have is a subsidy for American consumers. If you look at the numbers and you look at the disposable part of income that is going from consumers for food, even when you factor in the farm program and you look at the trend over time, our consumers are experiencing a tremendous reduction in what they are having to pay for food.

And part of the reason is in rural America, people are working for basically slave wages. It is absolutely amazing what is happening on some of the family farms in terms of net income compared to the hours being worked by the family that is working that land.

Another reason they should care is because it makes good economic sense. We just had this "data day" conference that I referred to in which we were stressing the information processing industry. We had a couple of people there who were looking North Dakota over, corporate executives who had done detailed cost analysis.

One of them, a major insurance company from the east coast, had learned that they could save 18 percent on their operations by being located in my State. If that is true in the private sector, I would guess it is true in the public sector as well.

So one of the areas that I think we ought to investigate and pursue is relocating certain data base management functions of the Federal Government—from crowded urban areas back to more rural areas where production may be done at less cost and, very frankly, more efficiently, because you have a workforce that is available that is very hard-working. The work ethic is intact and they are desperate for jobs.

I think there is an economic advantage that could be realized. We are not talking about some one-way hand-out here. We are talking about an advantage societally. I think all we have to do is look at these urban areas. I don't think we need more people in the Washington metroplex.

The problems are out of control, school systems collapsing. Drugs are out of control, crime is out of control, and at the very time we have substantial jobs here in data base management, including those of the Federal Government, which could be redirected at significant savings to the Federal Government. I think all of these are important to keep in mind.

I don't know who is next here, but I don't want to take any more time because Senator Daschle and Senator Kerrey are here, and perhaps Senator Daschle would like to proceed.

Senator **Daschle**. Well, I know there is another panel, but I would only ask Mr. Lull if he could give us some indication as to what has happened in the last 10 years. I pointed out in my opening remarks that, obviously, the Government has pulled back in the resources available for businesses.

And without really any thorough study as to the impact that this has had, it is difficult to assess whether that has made any difference. Maybe business has very capably come in to offset these cuts with new loans and new opportunities that they have been able to fill the void, and I would like you to elaborate on that, if you could.

Is there a need for the kinds of things that were there in the 1970's, or are we now at a point where the private sector can more than readily address many of these concerns without any help from the Federal Government?

Mr. **Lull**. That is an interesting question, and the statistics you cited were quite interesting. I think privatization continues to have a place, and the area that ag bankers tend to work with most directly is the FmHA guaranteed loan programs.

The Farmers Home Administration, in particular, has, as you know, been shifting from a direct loan program to guaranteed loans, and I think from a policy standpoint this may be quite appropriate.

Given our ability to service these customers and have the protection of the guarantees, it has worked quite well. It has taken some adjustment, going away from direct lending on the part of the Farmers Home Administration to guarantees.

I think one of the things that might be evaluated in the guarantee program that would make dollars go farther is to focus on the actuarial experience of these guarantees.

Oftentimes, I think the experience of a potentially failing operation is much better through a guarantee than it has been through a direct loan. Just the servicing ability of banks seems to work quite well in the guarantees.

Statistically, I don't know how it shows up, but I think effectively, if guarantee funds continue to be available to banks to provide credit to a lot of our farmers, I think that is quite appropriate.

Senator **Daschle**. I am not sure I understand your answer. What you are saying is that if the guaranteed loan program, which is a Government program, works as well as it should, there really ought not be a role for the direct loan program that was in existence in SBA and Farmers Home and EDA in the 1970's?

Mr. **Lull**. We are really scratching our heads at times on the FmHA direct loan program. In particular, because of the protections that are built in now in the case of financial difficulty. Direct loans from Farmers Home do have a lot of protections for the borrower. Those same things occur, of course, in guaranteed loans.

But my point as far as costing the Government money is that on a guaranteed loan the servicing of that loan out is probably done in a more efficient manner and the ultimate cost to the Government, even in a loan that went south, is very small compared to the costs it might be for the Government directly to have to service those work-outs.

So I think that your money that is being allocated toward the guarantee program goes much further, certainly on actual dollars spent, by going through the guarantee program. So when your statistics might show that there is a decrease, for instance, in the direct lending program which add up to big dollars, you are probably still getting a lot of value for your money through the guarantee program.

Senator DASCHLE. There has been a substantial reduction in guaranteed fund availability as well. Do you find current guaranteed fund availability adequate?

Mr. LULL. This can vary from area to area. If you look at the State distribution and what States have money left over in allocations and what States are short, I think this is something that can be addressed.

I am not certain how that is done, but certainly when we have funds left over in a guarantee program, I think that it is a certainty that many States have used their full measure and could use more. I think the allocation problem can be corrected.

Are there true excess dollars to be spent? Certainly, your committee might well look at where else these funds might be utilized, such as in an equity capital program that is being discussed today.

Senator DASCHLE. Thank you, Mr. Lull. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Kerrey.

Senator KERREY. Well, I would like to deliver just two short lectures of a sort, one to each of you, and then ask one question.

Lecture number one is on equity. I will disclose to you that I have borrowed a lot of money from you bankers over the years. And, you know, it seems to me that one of the things that happens to us is that we disregard the magic of compounding interest, and I don't think we have done as good a job as we ought to with the development of personal habits either in a business or in a community.

This concept connects to a whole series of quality of life issues having to do with the conservation not only of fiscal, but of natural and human resources. I believe there is a real magic to compounding interest, and it is the only way, as I know it, to acquire equity, unless you are going to either steal the money or incorporate as a Savings and Loan. [Laughter.]

Which might, by the way, be the same thing.

The CHAIRMAN. Which might be the same thing; that is right. [Laughter.]

Senator KERREY. The chief way to acquire equity is to save, and one of the reasons that I think Senator Lugar is absolutely correct about the disaster program last year and its beneficial impact on rural development is because that it hit the income side.

You know, it is pretty hard to make a profit unless you have some income to begin with. I don't want to get too basic with the concept here, but it has to do with the personal ethic of conservation.

And very often we, not only politicians, who, by the way, if we understood the magic of compounding interest, probably wouldn't be in the Senate, but lenders are very often more concerned about making the loan and servicing the loan than working with individuals and encouraging individuals through the use of the word "no" now and then to conserve.

That is my short lecture and now I will tell you what the question is. Then I am going to put a lecture out to Mr. Kitchen and question him; then you can follow one another.

I am curious as to whether or not you have used the Kansas State pension fund for venture capital. I know they have it available down there, and if you have not used it, why, and if you have used it, does it do any good?

Mr. Kitchen's lecture begins with my concern about telecommunications. I was the lead Governor for the NGA in developing telecommunications policy recommendations and, you know, it seems to me that if we only nip at the edges, we are going to have troubles.

One of the things that I begin with in my analysis of telecommunications is the fact that I am 45 and I have pruned a considerable number of neurons in my lifetime and I have, through natural causes, lost a few others and I do not have the capacity to imagine what communications technology can do. And I have to confess that up front or I will make terrible mistakes.

I will simply say, well, telecommunications must be good because it is new, which is a mistake that I think we have made over and over and over with technology. We assume that newness means better. It doesn't. We have misapplied technology almost every time we have used it. I think we have to be very careful with communications technology that we don't do that again.

Second, I happen to believe that we need to develop a real strategy not only with infrastructure, but with research and with programming. When you talk about telecommunications I think you have to broaden the scope not just to the common carrier, but also to the broadcast people—and I believe that once you do that, you will see all sorts of people doing what I affectionately refer to as sitting on their market share, wanting to avoid either an alteration and an expenditure or a tax or a regulatory change in order to protect their market share.

And the question that I had for you was whether or not you thought an alteration in the modified consent decree would be a benefit to rural development?

Mr. Lull. You are certainly preaching to the choir on the importance of equity, and I think this is why it is being discussed. Borrowing 100 percent doesn't work at all. This has shown up even in some of the direct lending in Farmers Home. So the retention of equity is very important.

You can't retain equity unless you have a chance to earn a profit. This is the real dilemma. There exists in rural people a lot of spark and ability. Those people maybe deserves a chance.

Senator Kerrey. Let me get more specific. I apologize for interrupting, but I want to stay with the point. For example, how do I manage to acquire $100,000 cash equity? How do I do that, and how does a community do it, as well? Because I see spending patterns within the community, whether it has to do with the way that we do solid waste, which is an enormous waste of money. If we altered our behavior about the way that we haul stuff out to the garbage dump, we could end up with more money in savings. So it is not just individuals; it is very often the community.

How do I end up 10 years from now with a $100,000 CD? What do I do to get a $100,000 CD? Do you work with individuals so that they begin to see the savings ethic as being an awfully important part of their habits, or do you, as lots of us do, encourage what I refer to as the shiny bumper disease every spring?

Mr. LULL. The question you ask, I think, is several-fold. In our written testimony, we address the educational aspects of financial counseling, and I think that is highly important.

To end up with a $100,000 CD 10 years down the road, let us say that you are in farming.

Senator KERREY. Let us make it real specific.

Mr. LULL. All right.

Senator KERREY. I earn $89,500 a year as a U.S. Senator.

Mr. LULL. Right.

Senator KERREY. I don't take honoraria. That is my income.

Mr. LULL. OK.

Senator KERREY. What do I do?

Senator DASCHLE. Vote for a pay raise. [Laughter.]

Mr. LULL. There is a difference between savings on a salary and savings in a business. The business requires capital, and for you to have a $100,000 CD, let me illustrate an example. A farmer draws a salary, and for him to survive 10 years and at the end of 10 years have a $100,000 CD, he is probably going to sell his operation at the end of the tenth year.

Oftentimes, in main street businesses and farms, on-the-farm income is plowed back into the operation. Net worth increases over time. That net worth is what gives that person the chance to succeed.

So the accumulation of capital can be saved or it can be reinvested in the business, and that is probably the same thing. If you are getting 9 percent return on a certificate of deposit, if you are getting a 9 percent return on your equity in your business, I would submit that those two things are quite similar.

Obviously, in the farm sector there is a great deal of saving done through a farmer's lifetime. He realizes the savings at the end of his career, and I think any business requires reinvestment. Certainly, if you start with 75 percent debt in a business, you work your way toward 0 percent debt and 100 percent equity, and this is the savings that are effected.

You and I that earn salaries, it is a little different situation. We do need to learn to save. We do need to drive the same car longer than a lot of us are prone to do.

Senator KERREY. Thank you.

Mr. KITCHEN. First of all, I agree with you in the sense that we have misused technology throughout the course of education. What we need to do is to spend more time in the planning, the training, understanding of needs, identifying needs, identifying strengths, and then determining whether or not the technology will actually deliver improvements to areas of need, and whether the technology is a cost or benefit.

I agree we need to spend that time. That is why earlier I said that we need to emphasize the nontechnical aspects of getting involved in telecommunications technology for education.

In terms of the consent decree, yes, I believe that with the restrictions that are imposed on companies now, those restrictions do not allow for the most economical network to be designed, and I will cite the one quick example of the LATA boundaries. For instance, what are those and why do we have them?

It simply seems to me that if we had fewer restrictions on companies, we could have more competition and provide a more economical, better designed network for rural communities as well as everyone else.

Senator KERREY. Thank you.

The CHAIRMAN. I think it is good. Keep on going; you are on a roll. You know, one of the reasons for these hearings and one of the reasons why we are also going to try with the task force to bring in the Finance Committee, the Small Business Committee, and bring in all the other committees on this, is that there are amazing things we can do, whether it is technology or banking.

The fact that we can do them—do they really work? Do they make sense? Those are the answers that we are going to have to reach here, but I think that the biggest thing is in rural America there will always be great success stories in particular States, State by State, or particular areas, area by area.

But the national policy has to be a major one, and if there is ever a time for it, I think it is most important since any time since the Dust Bowl days to have that kind of a national policy. I hope we can reach it.

Gentlemen, I thank you both very much for coming here.

Mr. LULL. Thank you.

Mr. KITCHEN. Thank you.

The CHAIRMAN. I would like to call on the next panel, Stephen McConnell, who is the president of Northern Community Investment Corporation, St. Johnsbury, Vermont; Larry Farmer, Mississippi Action for Community Education, from Greenville, Mississippi; and Neal Barber, the director of the Virginia Department of Housing and Community Development, from Richmond, Virginia.

I might take a moment to introduce Steve McConnell. Steve is the president of Northern Community Investment Corporation. He has been with, I believe, NCIC practically from the time it started. He has worked with me and my staff for many years. He has been a tremendous source of knowledge and expertise. I am delighted you are here.

He is a certified public accountant by profession, a group that at this time of the year I love, even though I anguish a little bit over it because they tell me how much I owe on my taxes.

But, Steve, I am very pleased that you are here, and I would ask if you would start off with your testimony, and then Mr. Farmer and Mr. Barber. Of course, your prepared statements will be inserted in the record. Thank you for coming down.

STATEMENT OF STEPHEN C. McCONNELL, PRESIDENT, NORTHERN COMMUNITY INVESTMENT CORPORATION, ST. JOHNSBURY, VT

Mr. McCONNELL. Thank you, Mr. Chairman and distinguished members of the committee.

Thank you for holding these hearings on Federal rural development legislation. It is my pleasure to appear before you in my capacity as president of Northern Community Investment Corporation, what we refer to as NCIC. NCIC is an organization which has been actively involved in rural economic development for 14 years.

I consider myself a practitioner, someone who strives on a daily basis to marshal the financial and staff resources necessary to generate greater economic opportunity and benefit for the residents of a depressed rural region.

NCIC, as a nonprofit rural development corporation, attempts to establish itself as a catalyst for economic development, combining investment capital and professional staff to achieve lasting economic benefits for the Northeast Kingdom of Vermont and northern New Hampshire.

NCIC has never operated in isolation. Everything we have done has been in partnership with private and public resources. Because I am an accountant, maybe I will throw the numbers out first of some of the things that we have been involved in.

Over the course of our history, we have invested, directly, $18.2 million and leveraged another $85 million in public and private resources against that. So we have been actively involved in over $100 million in financing.

We have, through our investments, created or sustained over 2,600 jobs in the region that we serve. And as important as those jobs are, those businesses and projects in which NCIC has invested have a combined annual payroll of over $41 million. That annual payroll is of significant importance to rural areas, and that is annual and the taxes and other multiplier benefits that accrue from that payroll are enormous.

We have developed over 19 housing and other real estate development projects in excess of $18 million, and we have provided apartments, sheltered care facilities, and housing for over 430 residents of the area.

NCIC's approach to rural economic development is straightforward. We use investment capital and professional staff to identify, evaluate, package, and deliver the needed resources to achieve a project objective. That objective, whether it be the startup of a new business or the expansion of one that already exists, creates further opportunities for the residents.

We provide only that amount of capital needed beyond what conventional banking institutions are able to provide because of safety and soundness concerns. Much of our financing takes the form of long-term working capital.

We are dedicated to the concept of leverage. Typically, $4 to $5 of additional financing is secured for every $1 NCIC commits to a given deal or project. NCIC does not compete with private banking institutions; on the contrary, we work together closely to construct a financial package which will give the enterprise the capital needed to succeed. It comes back to what Mr. Murray Lull was saying earlier. We are trying to provide, capital, equity capital. There are a lot of different names for it. We call it risk capital, but it is capital that can be leveraged in order to finance a promising business.

Many of NCIC's larger investments have been with existing companies offering substantial employment growth potential. Others have been with startup companies who needed substantial capital in order to get to a level of self-sufficiency and profitability.

We have also had a great deal of success assisting in the startup and growth of microbusinesses. Research recently has shown that a substantial percentage of the new jobs created in this country occur in businesses with less than 25 employees. Such research does not come as a surprise to NCIC. In our region, 85 percent of all the businesses employ less than 10 people.

NCIC has developed programs which are targeted to meet the needs of the micro and small businesses. First, we have joined forces with the SBA sponsored small business development centers to fund circuit-riding consultants, whose purpose is to meet with the small business entrepreneurs and to help them in developing a realistic business plan. He also provides assistance in developing an application for financing.

Should the bank feel the plan has merit, but due to the risk, a shortage of collateral or a lack of credit history, it is unwilling to provide the full financing, NCIC will consider the application and will match the bank loan dollar for dollar up to $10,000.

These are microbusinesses. We have funded over the course of the years everything from loggers, day care providers, novelty producers, furniture makers, bookkeeping services, a variety of small entrepreneurial businesses.

What makes NCIC's approach to rural economic development different? The tools, both financial resources and staff expertise, are not in themselves new. What is different is the position from which NCIC operates. We are neither the public sector nor are we a for-profit private enterprise.

We at NCIC attempt to recognize and utilize the positive resources that both sectors can provide. As an independent catalyst, we are trying to gain the confidence of both and help to create economic benefit for the residents of the area we serve.

As professionals with the skills commonly applied solely for the benefit of private enterprise, we are mandated by our corporate mission to utilize our financial resources for the benefit of the economically distressed communities we serve. We are able to help create a partnership between the two sectors using experienced negotiation, coupled with money, to serve the greater community interest.

NCIC makes investments, not grants. Implicit in that approach is the expectation that there will be a return on those investments, and that return will then be reutilized for future investment opportunities.

NCIC consciously limits the term of its financial investments.

NCIC firmly believes that its financial participation should end as soon as the business is able to support operations without our participation. We want the business and the bank to take us out as soon as possible. It supports our belief that any business needs to prosper using conventional banking institutions which have a much higher level of financial capacity than we ever will.

This early withdrawal and resulting return of capital supports NCIC's ability to do other financings. Use of this approach has enabled NCIC to invest between $1.5 and $2 million annually over the last 6 years. Ninety-five percent of those funds came from the repayment of previous investments.

Certainly, it should be acknowledged that economic development represents only a part of an overall strategy for assisting rural communities to survive and grow. Education and infrastructure are extremely important, but we also believe that the application of capital is necessary in order to stimulate the local economy, and we have had some success in that effort.

Thank you.

The CHAIRMAN. Thank you very much. I have been following NCIC since 1976 when you got your seed money, about a year after I came to the Senate. Very interesting.

[The prepared statement of Mr. McConnell and examples of businesses in which NCIC has invested, follow:]

[EDITOR'S NOTE.—NCIC Newsletter and NCIC annual report for the year ended June 30, 1988, are retained in the committee file.]

THE COMMUNITY DEVELOPMENT CORPORATION SERVING THE BUSINESSES AND COMMUNITIES OF NORTHEASTERN VERMONT AND NORTHERN NEW HAMPSHIRE

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Statement of

Stephen C. McConnell
President

Northern Community Investment Corporation

before the

Committee on Agriculture, Nutrition, and Forestry

United States Senate

April 5, 1989

STATEMENT OF STEPHEN C. MCCONNELL, PRESIDENT, NORTHERN COMMUNITY INVESTMENT CORPORATION, ST. JOHNSBURY, VERMONT

Mr. Chairman and distinguished members of the Committee.

Thank you for holding these hearings on federal rural development legislation. It is my pleasure to appear before you in my capacity as President of Northern Community Investment Corporation (NCIC). NCIC is an organization which has been actively working in the field of rural economic development for fourteen years.

I consider myself a "practitioner", someone who strives on a daily basis, to marshal the financial and staff resources necessary to generate greater economic opportunity and benefit for the residents of a depressed rural region.

I am proud to represent an organization which has achieved notable success in its efforts to create employment and revitalize the rural communities it serves.

NCIC, as a non-profit rural development corporation has established itself as a catalyst for economic development, combining investment capital and a professional staff to achieve lasting economic benefits for the Northeast Kingdom of Vermont and the North Country of New Hampshire.

Our record of accomplishment reflects the dedication and cooperation which has been obtained by working with private sector businesses, the banking community, state programs and agencies and federal development financing.

NCIC has never operated in isolation, everything we have done has been in partnership with private and public resources. As a catalyst, NCIC has been able to effect development which neither the private or public sectors have been able to achieve independently.

Using investment capital and professional development expertise, NCIC has been able to accomplish the following aggregate results:

* To date NCIC has invested $18.2 million and leveraged another $85.8 million from private and public sources for 243 businesses and development projects, representing over $100 million in total financing in which NCIC has participated.

* NCIC's investments have created or sustained 2,675 net, full time jobs, excluding construction and temporary employment. Those businesses in which NCIC has made investments currently employ over 3,200 people.

* Important to job creation and preservation is the fact that those businesses and projects in which NCIC has made investments, have a combined annual payroll of $41.8 million. That combined annual payroll figure has grown each year providing an ongoing benefit to the local economy through multiplier effects and taxes.

* NCIC has developed 19 housing and other real estate projects in excess of $18 million. These projects provide housing, apartments and sheltered care facilities for 430 residents, both the elderly and families.

NCIC's approach to rural economic development is straight forward. We use investment capital and professional staff to identify, evaluate, package and deliver the needed resources to achieve a project objective. That objective, whether it be the start-up of a new business or the expansion of one that already exists, will result in employment, ownership or housing opportunities for the residents of the region.

We provide only that amount of capital needed beyond what conventional banking institutions are able to provide because of safety and soundness concerns. Much of our financing takes the form of long-term working capital, the most difficult form of capital for a small business to obtain. We work closely with the business and its banker to develop a plan which we all can agree has the greatest probability of success.

The form of our investment, whether it be equity ownership, a direct loan, a loan guarantee or a lease, is determined by the needs of the business and in negotiation with the other financial participants.

We are dedicated to the concept of leverage. Typically, $4 to $5 of additional financing are secured for every $1 NCIC commits to a deal. NCIC does not compete with private banking institutions; on the contrary, we work together closely to construct a financial package which will give the enterprise the capital needed to succeed.

NCIC's investments cover a broad spectrum, from mom & pop micro businesses to larger companies with more than 200 employees. Our historical investment activity breaks down as follows:

# of Investments	NCIC Investment	NCIC Total $	Jobs/%	Dollars Per Job
135	< $10,000	$ 961,000	315 /12	$ 3,051
121	$10,000 to $50,000	3,882,000	566 /21	6,859
18	$50,000 to $100,000	1,435,000	193 / 7	7,435
38	> $100,000	11,967,000	1601 /60	7,475

Many of NCIC's larger investments have been with existing companies offering substantial employment growth potential. Others were start-up companies which needed substantial capital in order to be able to adequately begin and sustain operations until profitability could be achieved. Unfortunately they were unable to take advantage of opportunities for growth because they were undercapitalized. In both cases NCIC was able to assist these companies' growth objectives by providing the needed capital.

At the end of this statement I have included some specific examples of businesses in which NCIC has invested. These examples offer you a more concise view of the type of businesses which NCIC feels have been of economic benefit to the area's residents.

We have also had success in assisting in the startup and growth of micro businesses. Research shows that a substantial percentage of the new jobs created in this country occur in businesses with less than twenty five employees. Such research does not come as a surprise to NCIC. In our region 85% of all businesses employ less than 10 people.

NCIC has developed programs which are targeted to meet the needs of micro and small businesses. Recognizing that the two greatest impediments to small business success are the lack of capital and the lack of business skills, NCIC has developed programs to address those needs. First, we have joined forces with the SBA sponsored Small Business Development Centers to fund a circuit-riding consultant whose purpose is to meet with small business entrepreneurs and assist them in developing a realistic business plan. After providing this technical assistance, the consultant provides assistance in developing an application for financing. Upon completion of that effort the entrepreneur has in hand the necessary data to approach a bank or NCIC for financing. The bank or NCIC now has understandable information on which to evaluate the credit worthiness of the plan. This process also dramatically cuts the time the bank loan officer has to spend on reviewing an application.

Should the bank feel that the plan has merit, but due to the risk, a shortage of collateral or a lack of credit history, it is unwilling to provide financing for the full amount, NCIC will consider the application under its Small Business Assistance Program. This program will match a bank loan dollar for dollar up to $10,000. This program is designed to accomplish the following:

1. The small business is able to obtain the needed financing.
2. The bank has received information which is easily understood and provides answers to credit lending questions.
3. The bank's transaction cost is substantially reduced by the technical assistance provided.
4. The bank is encouraged to lend because the application has been reviewed by someone experienced in loan evaluation and underwriting criteria.
5. NCIC subordinates its collateral interests to the bank thereby ceding the more secure collateral position, while providing the additional capital needed to increase the probability of success.
6. Ongoing technical assistance and monitoring provides the bank with the comfort that the borrower is receiving additional assistance as needed.
7. NCIC sees the benefit of a small business obtaining the capital needed and the establishment of a business banking relationship which will be crucial to the venture's ability to grow in the future.

Obviously these are high risk loans and there would be a higher default rate than a bank would be able to tolerate without NCIC's participation. Nevertheless, NCIC and the banks have achieved success with the program, making over 130 such loans in recent years. The following is a partial list of some of the types of micro businesses assisted with this program;

- Loggers,
- Day-care providers
- Independent truckers
- Variety stores
- Furniture makers
- Novelty producers
- Small contractors
- Bookkeeping services

Craft producers
Machinists
Auto repair and body shops

What makes NCIC's approach to rural economic development different? The tools, both financial resources and staff expertise, are not in themselves new. What is different is the position from which NCIC operates. We are neither the public sector nor are we a for-profit private enterprise. The public sector, given its political constraints, is reactive. It is extremely difficult for the public sector to initiate this kind of economic activity. The for-profit private sector by definition is profit motivated, competitive and geographically unencumbered. Unfortunately a distrust between the two sectors often develops.

We at NCIC attempt to recognize and utilize the positive resources that both sectors can provide. As an independent catalyst we are able to gain the confidence of both and help to create economic benefit for the residents of rural areas.

As professionals with the skills commonly applied solely for the benefit of private enterprise, we are mandated by our corporate mission to utilize our financial resources for the benefit of the economically distressed communities we serve. We are able to help create a partnership between the two sectors using experienced negotiation coupled with money to serve the greater community interest.

There are several aspects to NCIC's approach which we feel optimize our effectiveness and provide greater benefit through increased activity. The creation of a revolving financial base is crucial. This base insures that the development entity will continue to have the financial resources needed to create increasing measurable impact over time. It also provides the financial resources necessary to support a professional staff.

NCIC makes investments not grants. Implicit in that approach is the expectation that the investments will be repaid resulting in the reutilization of those funds for future investment opportunities. Because our investments are structured to provide a financial return we are able to cover the cost of staff operations. The validity of this revolving fund concept has proven itself in NCIC's case as we have been self supporting since 1981.

NCIC consciously limits the term of its financial investments. Our experience has been that most businesses in which we make an investment, will undergo a substantial refinancing within a five year period. There are many factors that contribute to this refinancing phenomenon, such as rapid growth, change in product mix or plant expansion; regardless of the reasons, such refinancing offers NCIC the opportunity to exit from the company at the point where it is able to rely on conventional financing.

NCIC firmly believes that its financial participation should end as soon as the business is able to support operations without our participation. We want the business and the bank to take us out as soon as possible. It supports our belief that any business needs to prosper using conventional banking institutions which have a much higher level of financial capacity than we could ever provide.

This early withdrawal and the resulting return of capital to

NCIC supports our ability to do other financings. Use of this approach has enabled NCIC to invest between $1.5 and $2 million annually over the last six years. 95% of those amounts came from funds repaid from previous investments.

Certainly it should be acknowledged that economic development represents only a part of an over all strategy for assisting rural communities to survive and grow. Other efforts, the most important of which is improved education for our children must be pursued. Infrastructure such as water, sewer and roads are also necessary for economic development to succeed. However, it is my opinion, that these by themselves are not enough. The application of capital is needed to stimulate the local economy. NCIC is an example of one approach which has provided economic dividends to the residents and communities it serves far beyond its initial seed capital.

Recommendations concerning federal support:

1. Capital, preferably seed capital at a sufficient level to enable the rural development organization to perform and grow to self-sufficiency.
2. Applications for federal funding should be supported by a thorough analysis of the economic characteristics and needs of the rural area to be served, coupled with a strategy for addressing those needs.
3. Applications for federal funding should address the ability to support a professional staff, skilled in lending and development finance.
4. Avoid too many layers of approval. Business and development financing requires a timely response.
5. Recognize the economic benefits that micro and small businesses provide rural communities and support their development.
6. Recognize the role of private sector banking institutions. They are community based and have access to capital beyond what the government may provide. They need to be part of the solution.

(Specific examples of businesses in which NCIC has invested follow:)

Slalom Skiwear

Slalom Skiwear, in Newport, Vermont was born and bred in the NCIC service area. The company was founded in 1891, under the name B.F. Moore, a manufacturer of overalls for workers in the Newport Railroad yard. Present management joined the company in 1968. In 1971 the name was changed to Slalom. Production included a complete price range of ski clothing and a high quality line of foul weather gear.

Between 1981 and 1983, NCIC worked closely with Slalom, the largest single non-agricultural employer in the area. Wages were well above the minimum, representing a tremendous significance to a region characterized by the highest unemployment and the lowest per-capita income in Vermont. During that period, NCIC arranged three separate loan packages allowing for stable employment at Slalom and a steady pattern of growth. Even as "offshore" production and the effect of erratic weather on winter skiing gave reason for concern, the company diversified its product lines still further and aggressively pursued an international market.

In 1985, Robert Bruce Industries, a sweater and soft-goods manufacturer based in New York, bought the Newport company in order to enter the ski clothing market with established Slalom accounts. By 1988 it was clear that Robert Bruce's plans had not materialized. The future of Slalom in Vermont was in jeopardy. Management, with whom NCIC had worked before, asked for help in buying the company back and returning ownership to local control. In April, NCIC again made a major commitment to the company and its employees with a loan and equity investment. Three regional banks took part in that financing.

Because of the recent refinancing and management buyout, Slalom Skiwear continues to employ over 100 people and has the opportunity to chart its own course for the future.

La Vida Foods

In 1984 two naturalized US citizens with business interests in the Dominican Republic were introduced to a yogurt-like drink well known among Hispanics in the Caribbean. Known by its generic term "boruga," this particular variety was sold under the producer's family name, Capellan.

In March 1985, the Americans and the Dominican family reached an agreement to sell production and distribution rights of the Capellan Boruga outside of the Dominican Republic. Then with little more than the recipe, La Vida Foods (spanish for "life's foods") was born.

Using the research and development capabilities of the University of Vermont, La Vida undertook a product and manufacturing feasibility study that would allow the company to meet the demands of the American Hispanic market, well known for its loyalty to ethnic foods. By October 1985, La Vida was assured that an acceptable product, indistinguishable from the original, could be made in the United States. The task was to find an appropriate location for the company's facility. Officials from the Vermont Department of Economic Development suggested several locations including Hardwick in Vermont's Northeast Kingdom.

In February 1986, NCIC was asked to review the La Vida proposal and to evaluate the project. With boruga research still underway, staff from NCIC flew to New York to meet with the principals of the company. NCIC offered to assemble a development team to focus on the elements necessary to enable the business to start operations and test the market. The offer was conditional upon completion of the research, development of a suitable production process, and a review of the principals' financial commitment.

In March, the NCIC team met again with La Vida and proposed 1. to assist in refining the company business plan, 2. to coordinate the design of a suitable facility, and 3. to help secure the necessary financing. In the following months NCIC worked with La Vida to develop a realistic projection for the business's start-up schedule. Several sites were considered for comparison. NCIC's staff architect presented preliminary building design and a bank in nearby Danville agreed to an application for financing. An inquiry was also made to the US Small Business Administration for partial funding with SBA guaranteed debentures.

In December the initial research was completed and following the lead of NCIC's commitment to $200,000, the other investors representing $1,600,000 had been assembled. Production began in 1987.

NCIC continues to work closely with La Vida Foods as the process of stabilizing a new company, and producing and marketing a new product continues. With a continuing diversity of dairy products and a careful management within the company, La Vida can be an important part of the Northeast Kingdom economy.

Design Contempo, Inc.

Design Comptempo of Lisbon, New Hampshire is a beneficiary of NCIC's business development program.

The company was originally based in Littleton, New Hampshire. In 1984, the firm was a successful manufacturer of butcher block tables with 25 employees but had reached full capacity for production with existing plant and equipment.

When a manufacturer in nearby Lisbon went out of business leaving more than 100 employees out of work, Design Contempo arranged temporary financing to purchase the plant. NCIC was asked to participate in longer term financing and made a direct loan to the company for that purpose. Projections at the time indicated that Design Contempo would hire 30 new workers within the year.

NCIC began to monitor the progress of the company and worked closely with its management during the transition to a much larger facility. Within its first year in the new location, the firm hired 69 employees and entered into an expanded line of butcher block furniture. Most of the new jobs went to workers who had been laid off by the previous owners.

In 1987 NCIC made a second investment in Design Contempo allowing the company's expansion into a line of institutional wood furniture for applications in the US Army and a growing list American colleges and universities.

Design Contempo has established its position as a major employer in the New Hampshire North Country with 150 employees and a product line that continues to generate a profit for the company.

Connor's Footwear

In the summer of 1979, a foreign-owned shoe manufacturer announced its intention to close its plant in Littleton, NH and to lay off 300 employees. NCIC met with the local management of the company and began to develop a plan for the formation of a new company which would hire a large number of the employees. After an analysis of the industry and consultation with the local management, a proposal was developed for more than $3 million in funds needed to re-start a shoe plant.

NCIC's research of the shoe manufacturing industry as a whole and the capabilities of the Connors operation in particular considered the changing world footwear market and the possibility of a northern New England firm filling a niche in that world market.

The principals of Conner's Footwear understood that their plans to pick up where their predecessor had failed were daring. In conjunction with NCIC's staff, they understood that 1. failure to control costs or 2. the inability to maximize plant efficiency and labor productivity were the primary risks that they faced. In order to survive, management had to limit production mixes by manufacturing products suited to the skills of the labor pool and to the best use of the plant and its equipment. Both issues were considered in detail and plans were made to assure that inefficiency and low productivity were averted at the earliest warning.

A marketing strategy was also given the most careful attention. The plan focused on a specific market grade level and an understanding that the wholesale shoe buyer would place a premium on quality, comfort, and the manufacturer's ability to deliver on schedule. Management agreed further to accept only customer orders priced to achieve an established margin of profit.

The financing required to implement the ambitious plan totaled $3,055,000. With NCIC's endorsement of the plan and its commitment to $950,000 in the form of a loan guarantee, direct loan, and the purchase of common stock; the owners were able to assemble the necessary additional investment. Two banks and the U.S. Farmers Home Administration allowed for the purchase of the business and the required working capital. Production started in April 1980 and NCIC's staff began to watch the investment closely.

Today Connor's remains an important factor in the market. At the end of the last fiscal year the company reported sales in excess of $13 million, a payroll of more than $3.5 million and an employment level in the once vacant Lisbon, NH facility of 200. While "off-shore" production of imported shoes continues to be a threat for domestic manufacturers, Connors has remained strong and remains an important employer in New Hampshire's North Country.

The **Chairman**. Mr. Farmer, please.

STATEMENT OF LARRY N. FARMER, SR., PRESIDENT, MISSISSIPPI ACTION FOR COMMUNITY EDUCATION, INC. [MACE], GREENVILLE, MS

Mr. **Farmer**. Thank you, Mr. Chairman, members of the committee. I am sincerely honored and am very appreciative to have this opportunity to appear before you today to offer testimony on rural issues, needs, problems and, from what I see from my vantage point, opportunities.

As I listened to Steve, Steve, I would love to have your degree of rural problems. I would like for us to try to get to that level.

Before beginning my testimony, I want to make——

The **Chairman**. Steve will invite you up there in January when it is 30 degrees below zero.

Mr. **Farmer**. In Mississippi, Mr. Chairman, we know not to visit in January.

The **Chairman**. I want to tell you that Senator Cochran, who is a valuable member of this committee and extremely important to the committee on these rural issues, came to Vermont with me for a hearing. We were going to hold the hearing in St. Johnsbury and we arrived there and it was literally 25 degrees below zero and then started getting cold after we got there.

When we left, I think I had to commit to go to Mississippi about five times to make up for that, but it was a good hearing.

I am sorry, sir. Go ahead.

Mr. **Farmer**. He should have invited you down in late August as a pay-back. [Laughter.]

The **Chairman**. He did, let me tell you right now. [Laughter.]

Mr. **Farmer**. Before beginning my testimony, I want to make two admissions. One is that I don't profess to be a speaker of any sort. Second, I don't even profess to be a rural expert. What I do lay claim to being is an individual who has an ongoing and deeply-embedded love of rural America, and one who is extremely committed to its future vibrancy and quality of life. On a professional level, I head an organization that I have worked for for almost 20 years now, that I have worked for all of my adult life, that I started with as a 15-year-old high school youth organization member.

I see rural America today in trouble. I see several different rural Americas. I see and I hear about the rural America I heard discussed by members of this committee, by persons testifying before it. I am not sure I live in the same rural America that I hear many talk about.

My rural America—one is perceived; the other is real. My rural America in many respects closely resembles conditions commonly associated with or thought to be unique to urban centers of this country.

Conditions in my community resemble those to a large extent found in Third World, underdeveloped countries. Can this be? We don't have the Marlboro Man's vision of rural America where the air is fresher, the water is cleaner, the food is healthier and it tastes better. That is not necessarily the case in my rural America.

What is MACE? What does MACE do? Who does MACE serve? MACE is a tax-exempt, community based development corporation that was established in 1967 by a group of local civil rights activists who at the time were committed to transforming hard-earned civil rights gains and judicial rulings into something tangible and meaningful for poor and other black persons living in the Delta Mississippi, principally.

Over the years, we have concentrated the bulk of our resources on the development of human capital. We think that people build things; things don't build people. To that end, we have provided training to more than 153 leadership development trainees from throughout the Delta. We have responded to training requests from the Deltas' of Arkansas, Louisiana, Mississippi and as far away as Florida and other parts of the Deep South and the Southwest.

We have worked with—and I should mention those 153 persons who have gone on through MACE's training program are now doing things from running towns, counties, school systems, nonprofit housing corporations, for-profit organizations, and are engaged in any number of activities throughout the Delta region.

Senator, how are you?

Senator Cochran. Hello, Larry.

The Chairman. I want you to know I was praising you just a couple of minutes ago, so now don't break the mood, Thad.

Mr. Farmer. I will tell you after the meeting those bad things he said. [Laughter.]

But what we have tried to do over the years at MACE, and through our sister corporation, the Delta Foundation, is demonstrate that successful community-based human, educational and economic development activities can be carried out in minority rural communities by minorities. I should add that Delta Foundation owns one of the largest, if not the single largest for-profit black manufacturing concern in the country—that is something that we take pride in, but it is diminished by the fact that we are only talking about 600-plus jobs in the manufacturing industry. That does not speak well for the black economy in this country; it does not speak well for this country.

The core to MACE's approach to rural development is best summarized by the following objectives:

One, we seek to build representative and self-sustaining community institutions capable of interacting with the economic and social structures and systems which have a daily impact on the lives of individuals within the communities served.

Two, we try to increase community owned or community controlled capital, assets and income, physical, fiscal, and human.

Three, to create and stimulate community capacity to manage both economic and social goods and services.

Four, to strengthen the human capacity and capabilities and resources within the community served—a very basic, very fundamental approach.

Our approach to rural development since our inception has been based on some very fundamental perception about rural development and how it works and what it takes to make it work. Keeping those assumptions in mind and those objectives in sight, we think we have made some significant accomplishments.

MAJOR MACE ACCOMPLISHMENTS

In addition to our leadership development training program, we were instrumental in the formation of the Delta Foundation. We have assisted in leveraging more than $21 million in various municipal services for predominantly black and disadvantaged rural communities.

We have worked with local citizens on the incorporation of five predominantly black and poor rural communities as towns under Mississippi law, and have subsequently assisted those municipalities in securing in excess of $40 million in public and private moneys for housing, water and sewer, natural gas systems, streets, and other basics which many of you from urban suburban communities take for granted, but something very essential in rural America.

We are proud of what we have done, but the sense of pride and fulfillment that comes with a job well done is diminished by the realization that so much more needs to be done and could be done.

RURAL AMERICA: REAL AND PERCEIVED

It seems that the vast majority of Americans in our viewpoint in urban and suburban America, as we become more urban and suburban, have either lost sight of rural America or have subconsciously bought off on the advertiser's view of what rural America is and what it is all about.

To some extent, the perception was interrupted for many individuals when we had the recent farm problem and the farm crisis. In the Delta Mississippi, my family farm might be a plantation of many thousand of acres of land. There was a lot of talk about the drought and what could be done to help the plantation owner, but what about the plantation worker who lives in perpetual poverty?

To the surprise of many urban and suburban Americans, there is another rural America. I call it "really rural America," my America. It is home to millions of forgotten persons—blacks, whites, Hispanics, native Americans, men, women, young and old—and is a stark contrast to the good life which is generally thought to exist in rural America.

In many respects, there are many different rural Americas, as I stated earlier. In the distressed areas of the country, my really rural America, the one that is found along the Mississippi River corridor, is not like the one you will find in the Northeast where Steve is located. It is not like what you will find in the Southwest where the population is predominantly Hispanic and native American. It is not like that rural America you find in the Upper Northwest portion of this country.

My rural America is chronically ill, with many symptoms and too few who care! My really rural America in many respects has socioeconomic characteristics much like those found in Third World countries, and the much talked about urban centers in this country that are populated by those many described as the underclass.

Some of you may think my analogy is overblown, that it is too harsh, but consider some factors. More than 50 percent of all black males in the Mississippi Delta are unemployed. There are more black males who are in jail and unemployed than there are in high schools and colleges in the Delta of Mississippi.

Drugs are running rampant in my community. I see it, I hear of it in my community in the Delta. When I heard the Senator speak about Washington, that could have been Greenville, Mississippi, he was talking about. But, no, you don't have drugs in rural America; life is free and laid back. That is not my rural America!

Over half of all babies born in my rural America are born to teen mothers and unwed female heads of household. Approximately 40 percent of all the young men and young women who enter my high schools drop out before they complete the 12th grade.

The high percentage of my population is functionally illiterate. Our housing stock is old and decaying. Our family units are breaking down. We are losing jobs because of the flight of whites and commercial and industrial businesses from predominantly black communities. A situation Dr. Ray Marshall once described as "Shady Spots in the Sun Belt." The Mississippi Delta constitutes one of those spots.

We are seeing the emergence of what I think of as a rural ghettoization taking place, a rural phenomenon. Senator, you asked the question, why should the rest of America care? You should care because if you don't help me pay for my problems now, you are going to pay for it later. You can't keep deferring payment of the debt.

The urban problem in Chicago, Illinois has rural origins. There is a relationship. Where does the underclass come from? Many came from West Tennessee and the Deltas of Mississippi, Arkansas, and Louisiana.

In 1968, I graduated from a small high school in northern Mississippi, a class of 153 persons; 140-plus of those persons went to the States of Wisconsin, Illinois, Michigan, Indiana, Ohio, and Missouri. They are still there, but the question is why did they leave? Some of them, we don't want back; some of them, we would not allow back—many of these individuals are now a part of the much talked about underclass.

All is not good in rural America. Is that to say that rural America is lost? I say no. It starts with a basic, fundamental approach to problem-solving; that is, recognition of the problem! We have a serious problem in rural America.

What comes next? What can be done? Is there hope? Yes, a lot can be done! However, someone is going to have to have the courage to take a stand. One of MACE's board members, a reverend, a black Baptist reverend—they are famous for quotes, is fond of saying something to the effect that, "you can't teach that that you do not know, and you can't lead where you don't have the courage and willingness to go." Somebody has got to take a stand!

What can we do? Let us make a decision, let us make a policy decision and commitment, first of all, that rural America has major problems and we are going to address rural America's problems. It is pretty simple.

RECAPITALIZATION OF RURAL AMERICA

Let us follow that up with a well-defined plan and strategy to recapitalize, reinvest in rural America. That recapitalization takes one of any number of forms, for human capital development. Again, people build things; things don't build people. Therefore, lets start here with people.

I hear conversations about high-tech. We are trying to master low-tech. We have to get on top of what it is that runs our daily lives. We have to run some things out of our communities that are ruining our daily lives.

Let us invest in our people; let us invest in our greatest natural resource, our people. Let us begin to build some indigenous community based organizations that will allow persons from all sectors, all walks of life, to get involved in solving some of the problems of their communities.

Let us stop throwing money at problems. I read the other day, in thinking about this testimony, a MACE refunding proposal written in 1973, and in that proposal it stated that categorical cash programs do not solve deeply embedded and highly interrelated social, economic, and political problems.

I couldn't help but think Mr. Reagan and a lot of other persons would have been very proud of us 15, 16 years ago. But that statement wasn't a philosophical one from a political standpoint; it was one borne out of reality. We saw it firsthand; we saw it didn't work. Money, in and of itself, alone, is not the solution to the problem.

We have to take a stand and develop a policy statement. We have to commit some resources. There is no quick fix or cheap solution to this problem we have; there is none.

You have to help me solve my problem in Mississippi, Arkansas, and other parts of rural America. Those individuals in urban centers, unless they are willing to do that, are never going to solve theirs. If one were to think of the urban centers as major league franchises—let us say major league baseball teams, professionals—well, we have a good farm system in rural America. We are developing some first-class poverty and we send it right up there to play with you. It is going to happen; it is happening.

I heard some statistics quoted recently that said migration trends are changing, a rural ghettoization is taking place. My folks are not going necessarily to Memphis and Chicago anymore. They are going to Greenville, they are going to Greenwood, they are going to Clarksdale, and we don't have the systems and facilities in these communities to absorb those persons, to address their housing, employment and health care needs.

We need to begin to develop capital pools. We need to develop partnerships. We need to make it easier for private lenders to become involved in rural development in a meaningful way. Let us share the risk, for lack of a better word, for them to become involved in rural development as meaningful partners, not as superficial ones, but as substantive partners. Let us make it easier for them to do so.

We on the community development side must understand banking. We need more Steve McConnells in rural America that can work with our bankers, work with our elected officials. It can be done, but there has to be a commitment and somebody has to have the courage to take the lead. The U.S. Congress has an opportunity to take the lead!

Mr. Chairman, I thank you.

[The prepared statement of Mr. Farmer follows:]

Testimony Before
United States Senate
Committee On
Agriculture, Nutrition, And Forestry

Relative To:

"Rural Development Issues, Needs, Problems & Opportunities"

Given By:

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Date of Testimony
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Rural America
"A NEED FOR RE-INVESTMENT"

I. OPENING REMARKS:

Mr. Chairman, members of the committee, I sincerely appreciate and am honored to have this opportunity to appear before you to offer testimony about rural issues, needs, problems and, from my vantage point, what can and should be done to effectively address same.

Before beginning my testimony, in all fairness to this committee I must make two admissions. First, I am not a speaker, neither public or professional. I come to talk about rural America. Second, I don't even profess to be a rural expert. Simply put, I am an individual who has an on-going love affair with and an unwavering commitment to rural America's vibrancy and quality of life. On a professional level, I am head of an organization that has more than twenty (20) years of active involvement in rural human, community, economic and educational activities throughout the Delta of Mississippi.

In giving my testimony here today, I don't expect that it will be able to say anything you don't already know. What I will attempt to do is very simple. One, describe to you what MACE is, what MACE does, who it seeks to serve and, what it has been able to achieve since its inception. Two, I want to talk with you about two different rural America's...one perceived, one real. Three, share with you our vision, MACE's vision, of what can be done to address many of the needs, problems and issues which confront rural America. Because my frame of reference is somewhat limited to the geographic region of the country where I live and work, my remarks to a very large extent reflect the needs and aspirations of this region.

II. MACE OVERVIEW

A. Organizational History And Goals:

Mississippi Action for Community Education, Inc. (MACE) is a tax-exempt, multi-purpose, membership-based community development corporation. It was founded in 1967 by a group of fifteen local leaders representing eight community-based groups who were then active in the Civil Rights Movement and the War on Poverty. These activists realized the dire necessity of the translation of hard-earned civil and political rights into significant and tangible social and economic benefits for the rural poor throughout the Mississippi Delta. Realizing also that such benefits could be derived only by long-range, institutionalized development efforts, they designed MACE to serve as a catalyst and nucleus for rural community and economic development through the utilization of local community-based organizations.

The core of the MACE approach to rural development is best summarized by the following objectives:

(1) To build representative and self-sustaining community institutions capable of interacting with the economic and social structures and systems which have a daily impact on the lives of individuals within the communities served;

(2) To increase community owned or community controlled capital, assets, and income;

(3) To create and stimulate community capacity to manage both economic and social goods and services; and

(4) To strengthen human capabilities and resources within the community served.

These objectives formed the core of MACE's initial efforts at community organization and economic development. Since the primary resources for development consisted of the rural poor themselves, MACE focused initially on strengthening human capacities through leadership development training and on building viable community-based institutions through the provision of training and technical assistance. Local community leaders were identified and trained to develop local organizations which could provide social services and implement self-help economic development strategies without intensive MACE central staff support. MACE's ultimate goal is the growth and development of community leaders and local organizations capable of generating concerned and effective self-help community and economic development projects and programs.

From its inception, MACE's training program and approach to community, social, educational and economic development have been predicated on seven basis assumptions about the community development process and how it works. More than twenty years of experience serve to validate and re-emphasize these assumptions, which are:

(1) Comprehensive community, economic, educational, and social betterment programs constitute a more viable strategy for attaining equality than does a narrow focus on civil rights protest activities.

(2) The dependency fostered by poverty can be overcome only if the poor make decisions and formulate programs.

(3) People learn best through trying to solve their own community's problem.

(4) Training leadership without providing meaningful opportunities and resources to use the skills acquired can damage the community more than the absence of leadership.

(5) Constructive program run by the poor demonstrate poor people's ability to help themselves.

(6) Program operation produce increased bargaining power at the grass roots level.

(7) Organizations attract support by meeting individual needs and concrete appeal to self-interest. Organizations develop greater cohesion, more significant and lasting member skills, and wide middle class participation by concentrating on bread and butter human needs, issues and programs.

B. Major MACE Accomplishments:

Over the years, MACE and its affiliated organizations have made some very significant achievements and accomplishments for their constituents in poverty-stricken, rural and predominately black communities throughout the Mississippi Delta. Some of the major accomplishments are as follows:

- The provision of leadership development training to 153 local community leaders over the years from MACE Service Area counties;
- Creation of the Delta Foundation which is the largest black owned and operated rural community economic development corporation in the country, e.g, Delta owned business provide more than 500 manufacturing jobs.
- The leveraging of more then $21.8 million dollars in various municipal services for blacks and other disadvantaged persons over a five year period, in twenty-six (26) municipalities across the Delta.
- Incorporation of five predominantly black, poor and rural communities as towns under Mississippi law.
- Provide technical assistance over the last ten (10) years to newly incorporated black towns which leveraged more than $32 million for vitally needed services such as: water, sewer and natural gas services; streets and drainage; fire and police protection; industrial and commercial development; and low-income housing development

- Development of two rural development loan funds that are now capitalized at more than $1.6 million.
- Provide technical and financial assistance that resulted in the creation of more than 20 black owned businesses.
- Secured approximately $5.8 million in the last twelve (12) years to operate social and human service programs such as: youth employment and training; transportation for the elderly and handicapped; summer feeding programs and meals on wheels; right to read and senior citizen day care programs; pre-school programs for the children of low-income mothers; a community anti-crime programs; and

The abovestated and other activities undertaken by MACE and its affiliated organizations have had a profound impact on the lives of disadvantaged persons living in communities throughout the Mississippi Delta.

C. The MACE Service Area:

The MACE Service Area consist of fourteen (14) counties located in the Northwest quadrant of the state. These counties comprise roughly 80% of the Delta of Mississippi, approximately 12,000 square miles in land surface and is home to approximately 50% of Mississippi's black population. Perhaps one of the most apt descriptions ever given to this area was when a visitor observed, "the Delta has some of the World's richest soil and poorest people." Unfortunately, to this day, race and racism far too often is the basis on which vital decisions are made and actions taken.

III. RURAL AMERICA: REAL & PERCEIVED:

The vast majority of average for Americans, urban and suburban, have either lost sight of rural America or have subconsciously bought-off on the advertisers view of rural America. This view of rural America, as portrayed on the screen and in the magazine, is one of the clean water, fresh air, good tasting and highly nutritional foods and a care-free life style. To some extent, this perception of rural America was briefly interrupted during the early to mid 80's when the farm crisis resulted in midwestern family farms being lost to foreclosure, and large plantations in the "deep south" failing to meet the payment on their low interest FmHA loan.

However, to the possible surprise of many urban and suburban Americans, there is another Rural AMerica...let's call it "Really Rural America". Really Rural America, my America, is home to millions of forgotten poor persons (blacks, whites, hispanic, Native Americans, men, women, young and old) and is a stark contrast to the "good-life" which is generally thought to exist. In many respects, there are many different rural America's in this country...rural America is not monolithic! The rural America of the mississippi River corridor is quite unlike that found in the Southwestern, northwestern or northeastern parts of the U.S. Just as these regions of the U.S. are different, there are different regional needs, problems, aspirations and opportunities.

My Really Rural America has a chronic illness, with many symptoms and too few who care. My Really Rural America, in may respects, have socio-economic characteristics much like those commonly associated with under-developed, third world countries; or have conditions which most American think are unique to the under-class who occupy inner-city areas of America's major urban centers. The ghettorization which took place in the urban centers in recent decades has taken hold in my rural america...it is contributing to the chronic poverty and despair which already exists.

If my analogy seems to harsh or overblown, please consider that in my rural america, the Delta of Mississippi,

- More than 50% are black males are unemployed.
- There are more black males who are in jail and unemployed than there are in high schools, colleges and the work force.
- The epidemic spread of drug use and abuse in rural communities and its devasting impact, especially on our youth.
- The high percentage of live births born to teen mothers and in female headed households.
- The high percentage of our population base that is functionally illiterate.
- Public school drop-out rates range from 30% to 52%.
- Our housing stock is old and rapidly decaying, especially that housing occupied by low-income families and the elderly.
- The continual demise of the central family-unit in low-income communities.
- We're losing jobs because of the flight of whites and commercial business from predominately black communities.

- o We have a declining industrial base to provide jobs to our large and largely unskilled labor force, which happens to be predominately black.
- o We have a significant in-migration of low-income persons (black and white) into our few growth centers from municipalities in neighboring Delta communities and the State of Arkansas.
- o An attitude adopted by many whites that problems which exist in the black community are solely the problem of blacks, without taking into account contributing historical factors, causes, and long term effects; and,
- o the fact that we have two societies within our community, which are separate and unequal!

An objective assessment of data used to determine or measure the quality of life in the Mississippi Delta will reveal that things could be worse, but they could also be a hell of a lot better!

IV. RECAPITALIZATION OF RURAL AMERICA:

As America becomes more and more urban and suburbanized, our nation's political and business leaders, lending institutions, and scholars have become more and more conserned about solutions to "the Urban problem". In doing so, they have virtually ignored the plight, problems and needs of the rural, and, have apparently faied to see the correlation and inerrelationships between urban and rural problems. Just as rural problems contributed to creation of the urban problem, a comprehensive long term rural development plan and strageqy can help solve the urban problem!

By ignoring rural America, many of us have in advertently contributed to its deterioration and demise. However, its not too late to take corrective actions. It is universally undertstood that step one in problem solving is recognition of the problem...and rural America has a problem! What can be done about the problem? What is needed? Who can help? How should we approach rural America's problems and needs and, how can we take advantage of its development potential and opportunities?

Because of the complex nature and interrelationship of rural America's problems, there are no apparent quick-fix or cheap solutions. What is needed, as an initial step, is a commitment on the part of the U.S. Government to make a policy and develop a plan and strategy to "Re-capitalize Rural

America!" From our vantage point, this Recapitalization Plan and Strategy must:

1. Seek to address the totally of rural America's problems and needs;

2. Be comprehensive in nature and timeframe and broad in scope.

3. Be geared toward building human and institutional capacities within disadvantaged rural communities. Here we're talking about human capitalization as well as institutional.

4. Seek to encourage innovative public/private partnerships within economically disadvantaged that can make development capital available for various business, industrial housing and other community-development activities.

5. Encourage and support the start-up and expansion of minority and women owned businesses.

6. Provide meaningful employment opportunities and job skill training for rural youths.

7. Encourage major corporations that derive the bulk of their income and profits to re-invest in those Rural areas where they do business.

8. Encourage, support and assist in establishment of Regional Rural Development Institutes in select areas that would:

   - provide sustained development training to officials, staff members and volunteers from rural community-based organizations, local units of government, elected officials and the private sector;

   - formation of capital pools that could be used to leverage additional public and private development funds;

   - serve as support centers for various community-based development initiatives; and

   - assist and support the efforts of local community-based organizations, units of local government, and other organizations and agencies in their efforts to secure grant and investment funds for various local initiatives.

The problems confronting rural America is a large debt waiting to be paid. The longer the payment is deferred, the larger the debt becomes! We can pay now or we can pay later. This is choice, challenge and opportunity we are faced with as we propose to enter the decade of the 90's.

Thank you.

The CHAIRMAN. Thank you very much. Your statement is a good one, a powerful one, and one that I hope will be heard over and over again. You stressed once more that there are different rural Americas, and I am well aware of that. That is one of the reasons why when I became Chairman of this committee I started taking the committee out of Washington.

You know, we can all sit here comfortably in our suits and our ties in this beautiful room with chandeliers. Certainly, when you come to the Capitol, you have to be impressed; there is so much history in this building and the adjoining buildings.

And we could talk about the problems of rural America, but you are going to go back and see them firsthand and it is not going to be in a marbled hall and it is not going to be with a chandelier. It is going to be in housing, often inadequate; it is going to be in schools where the incentives are not there, the wherewithal is not there to keep people in school. It is going to be in businesses unable to get the capital to go for it, or not even having the applicants once they get going.

So I have taken the committee out of Washington around to rural areas, and I am going to be doing it again in the next few weeks. We will be down in the Southern States holding hearings.

As I mentioned earlier before Senator Cochran came in, Senator Cochran and I went down and saw that firsthand a couple different times going around parts of Mississippi. I don't think I ever would have seen that had I not been Chairman of this committee and had not been a member of this committee, and had it not been for Senator Cochran urging me to see firsthand things that I would not experience in Vermont or in the Northeast.

We have different rural Americas all over the country, except that we share one major thing. The rate of poverty is much higher in rural America than urban America. The rate of joblessness is much higher in rural America than urban America.

The lack of health care is much higher in rural America than urban America—lack of housing, lack of all other facilities. And that has to direct this committee because if anybody is going to speak for rural America, it is going to be this committee, and it is going to be if we can listen to people like you, sir, and others who come here to Washington and talk to us, but especially those who are going to have a chance to talk to us as we go around the country.

We won't respond as a Congress because of the votes in rural America. They are, by definition, far less than urban America, oftentimes not having the voices heard as articulately as we have heard here today, but we will listen and we will try to act, because it would make no sense in the wealthiest, most powerful nation in the world if we automatically say one-third of America is cut off from the rest of the opportunities in this great country. I mean, we fail as a nation if we say that, and we are not going to say it.

Senator Cochran, before we go to the next witness, do you have a statement?

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. Well, Mr. Chairman, thank you very much. I don't want to delay the testimony of this panel at all, but I do want to congratulate Larry Farmer for his excellent statement, and thank him for being here today to help our committee as we review these problems that we have throughout many parts of the country.

His presence here brings back memories of touring some of those projects and programs there in the Greenville area with him and with Charles Bannerman, our very good friend whom we miss very much.

And the efforts that they have been making, and many others who have been very deeply involved and committed to trying to improve the quality of life and the opportunities for the people who live in the Mississippi Delta, has really been an inspiration to me.

We need to keep working. We need to keep dedicated to this goal, and I am glad to see him here and I appreciate your inviting him, Mr. Chairman, to be a part of this hearing.

Thank you.

The CHAIRMAN. Thank you very much.

Now, let us hear the view from Virginia.

STATEMENT OF NEAL J. BARBER, DIRECTOR, VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, RICHMOND, VA

Mr. BARBER. Thank you, Mr. Chairman and other members of the committee. It is truly an honor for me to be here today to brief you on what Virginia has been doing and some of the needs that we still have in the area of rural development.

I, too, grew up and lived for most of my professional career in rural America. I grew up in a small town in New York State. My father was a country store operator, so I pumped gas and delivered groceries and fixed the Coke bottles in the back for most of my teens and growing-up years. We lived right over top of the store.

But in my professional career, I spent a lot of time in the coal mining area of southwest Virginia, and also in the rural eastern part of the State, the middle peninsula. So I am very familiar with and tried to work toward the development of rural Virginia as part of that professional development.

But as my professional career took me to Richmond, now I am more actively involved at the State level in trying to help some of those rural areas which I served at the local level.

We, too, have the disparity in Virginia with economic prosperity in the eastern part of Virginia and the rural areas going wanting. Unemployment in some of our northern Virginia counties and around the Richmond area is less than 2 percent, whereas the unemployment rate down in southwest Virginia is in the double-digit range and the true unemployment picture is well over 20 percent.

This requires us to look for ways that we can diversify our rural economic base, and as a State we have taken some direct actions to do so. The location of prisons in Buchanan County and in Emporia is just an example. These will bring 258 and 465 jobs, respectively, to these communities.

These used to be what I call LULUs, local unwanted land uses. But in these communities, they are welcomed with open arms because they need the jobs. They need the employment and the income.

In Charles City County, as another example, has actually recruited a regional landfill that will—not only serve Virginia, but a northeast region of the United States. This landfill of about 400 acres and a $30 million investment will bring 100 jobs down to that county. It is not very often that you get people wanting to have a landfill located in their backyard.

But beyond that, we have to diversify, again, our rural economy, and that is based upon what I call the four legs of a stool, the first leg being infrastructure development, the second leg being business incentives, the third leg being human resource development, and lastly and most importantly, picking up what Larry Farmer said, is the leadership and organizational development of a community.

The infrastructure includes such items as transportation, traditional water and sewer, business sites and buildings, as well as other basic community facilities. The business incentives start off with worker training, business finance, technical assistance, access to new technology—as we heard about earlier—and research and development activities. Human resource development should be based on basic educational opportunities, day care, housing, and health care that have also been mentioned.

I would like to stress the organizational and leadership development component. This is absolutely necessary for any rural development. I think what Larry was saying to us is, if we are going to work in rural America we just can't have growth. We have to embody the concept of development.

Development is not more; it is enabling people in rural communities to be self-sufficient, to carry out activities as things change, as administrations change, as society changes. They have to have the ability to adapt to those changes and continue to be self-sufficient.

I believe that this principle should be a characteristic of any rural development program. We, in Virginia, try to incorporate this principle in a number of our programs, leadership development at the local level.

We have normally broken leadership development down into four basic components. One is the organization that they have. Two, that organization has to have staff and money to carry out its mission. Three, we have to have some sort of promotional activity which will help plan and carry out its mission. And, lastly, there should be a product which we are promoting or trying to deliver to others. This product can be tourism development, industrial sites, or the downtown of our rural areas.

We need to develop that organizational leadership structure locally. Oftentimes in the rural areas, that leadership has to come on a regional basis. The community that I grew up in has 400 people. This community just did not have the resources or the people to support an ongoing organization. I think the regional approach is evident in the organizations that these two gentlemen represent and the success that they have had over the years. Also, the economy is not restricted to a community of 400. It usually encompasses the coal fields of Virginia rather than Wise County of Virginia.

Infrastructure development, I think, is one of the foremost keys to our efforts to diversify rural economies. First and foremost, transportation has to be put forward. Virginia's Governor in 1976 made a major effort in Virginia and we are now, as a result of that effort, yielding about $420 million a year which will help speed up the transportation improvements throughout the Commonwealth, most notably in rural areas.

Most recently, our general assembly appropriated a special fund to provide $40 million a year to retire bonds to construct a four-lane highway, Route 58, from Cumberland Gap all the way to Virginia Beach. This effort was done on an economic development basis, on a rural development basis, rather than to relieve the congestion in our urban corridors.

Second, infrastructure is water and sewer facilities. The water-sewer facilities in rural areas are woefully lacking. We have over $2 billion in the water improvements need alone in rural Virginia.

Virginia has tried to meet some of the sewer needs by establishing the Virginia Resources Authority and appropriating $10 million a year of State money to that organization to help meet our sewer needs. We have not done quite as good a job in the water area and we hope to take some action on that this year.

The availability of business and industrial sites in rural America is very important. Last year, 70 percent of the prospects coming to Virginia were looking for existing buildings on developed industrial or business property.

To fulfill this need, we have a number of initiatives. The first was what we call our Communities for Opportunities Program, which would establish a 160-acre regional industrial park in southwest Virginia.

Second was a southwest Virginia initiative to provide infrastructure funding to industrial sites; this was $13 million. Third is a new initiative, about to get off the ground, which will provide shell buildings in rural areas around the Commonwealth on serviced industrial property.

Most of the Federal resources are geared toward providing assistance when a business has committed to a rural area. There have been very few Federal resources available on an investment basis.

In other words, Virginia is willing to put up-front money into the rural areas so that when the business comes knocking on the door or we can generate new business from within the local economy, we will have a place to put them. You may wish to rethink our Federal stature about investments and how we make them.

The next major area is in business incentives. Again, foremost is business training. We in Virginia have a unique training program tailored to the individual needs of businesses and it has been extremely popular. We have had to increase the funding of that program every year since its existence, with an increase of about $1.5 million this year.

To complement that, we have various financing techniques—the Small Business Finance Authority, which sells taxable and tax-exempt bonds for fixed assets, and working capital financing.

We have a new venture capital fund that was just capitalized with $1 million, similar to the Kansas one that you heard about. Ours will be matched by $5 million from State financial institutions. The venture capital will be provided through VEDCORP, a subsidiary of the Rural Virginia Foundation.

Financing alone is not the answer to business development. You have to provide technical assistance, along with financing, particularly when targeted to small businesses.

You have to work with them, as Steve has mentioned, helping prepare business plans, proformas, and other things. In addition, we try to provide them access to new technology.

Access to technology development is provided through our Center for Innovative Technology. This organization has funded what we call entrepreneurship centers throughout the State. In addition, we are putting $500,000 in small business advisory centers. Also, the Center for Innovative Technology is funding incubators in several parts of the State.

I would like to note that some of our downtowns serve as business incubators in rural America. We don't want to overlook them because they are the hub of the support services that are necessary for fledgling small business survival.

When developing human resource, I would stress the education. Two years ago, we looked at our education system and found inequities between rural and suburban school systems were still as prevalent as they were back in the 1970's.

Last year we made a commitment of over $500 million in new money to our school systems to help improve the educational offerings and to reduce the inequities between rural and suburban school systems.

Another element of human resource development is our housing improvement. The Governor and the general assembly appropriated $47.5 million. The majority of those funds will be going to rural communities to provide decent, safe, and sanitary living conditions.

Let us not forget those people in our community that are illiterate. They do not have the opportunity to take advantage of a number of the educational programs that are available. Virginia has made a major effort to fund literacy programs, $4.5 million, roughly, in the last biennium.

This briefly outlines some of the programs that we have developed in Virginia. I would like to just address some of the needs that we have. While we have expended significant amounts of money to address the various components of rural development, we don't have enough money.

The resources are not available, even though we are trying hard to provide them. What is needed is basic utilities—water and sewer systems with the capacity to handle growth; developing available business and industrial sites and buildings; incentives to business for location in rural areas rather than in their metropolitan counterparts.

Management assistance to existing and potential businesses should be provided; access to new technology to restructure our existing business and to help provide the ability of new businesses to move to rural areas. Educational opportunities on a broad scale must be provided to our citizens and incentives to take advantage of the educational opportunities that currently exist.

In summary, rural development legislation at the national level should recognize the broad range of programs offered by the States and should complement these programmatic efforts.

We at the States ask that you work with us; don't bypass us. Hopefully, don't make the mistakes that we have made in the past, and share with us a common objective of development, not just growth, in our rural communities. We ask that the Federal Government join with Virginia and other States as coinvestors for the development of rural America.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Barber follows:]

STATEMENT OF NEAL J. BARBER, DIRECTOR, VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Mr. Chairman, members of the Committee, my name is Neal Barber and I am the Director of Virginia's Department of Housing and Community Development, and I also serve as Vice President of the Council of State Community Affairs Agencies.

Overview of Virginia's Economy

I would like to take this opportunity this morning to briefly review Virginia's efforts to develop its rural areas and what some of our continuing rural development needs are.

Virginia, as you are aware, has benefitted from a strong and vigorous economy. Virginia's population ranks twelfth in the nation, exceeding 5.8 million people. Over the last forty years, Virginia's population has grown rapidly, with three-fourths of the population increase occurring in the three major metropolitan areas in eastern Virginia--Northern Virginia, Richmond-Petersburg, and Hampton Roads. Much less growth has occurred in rural areas of the State. Some rural localities have lost significant population during this same period of time.

Along with population growth has been a strong growth in Virginia's economy. Virginia has ranked fifth in growth in non-agricultural employment. Between 1984 and 1987 employment grew at the rate of 14.7 percent compared with the national average of 9.1 percent. The unemployment rate of 3.8 percent is among the nation's lowest. Only nine other states have less unemployment than Virginia. In our metropolitan areas some of the localities have less than two percent unemployment, whereas the unemployment rate in our coal producing region exceeds ten percent.

Virginia's per capita income is the highest of any southeastern state and is the only southeastern state to exceed the national average. But, forty-nine of our rural counties and cities have unemployment exceeding ten percent and adjusted gross income of less than eighty percent of our State median. As you can see, many of our rural areas have not participated in the economic prosperity that the State has enjoyed over the past several years.

Strengthen Traditional Economic Base

In order to strengthen our rural economy first we must diversify and modernize the traditional economic base in our rural areas. In order to do this, Virginia has provided over $3.5 million to demonstrate how our agricultural economy can be diversified. We will spend over one-half million dollars to create farmers' markets, increasing the production and distribution of agricultural products. We have carried out a model program for improving forestry technology, since forestry products are one of our underutilized resources. Virginia's Department of Agriculture has been restructured to be more market oriented. The recent introduction of "Buy Virginia First" and "Virginia's Finest" campaigns illustrate this effort.

As you are all aware, we are becoming more involved in an international economy. In order to promote and foster Virginia's competitiveness in the world economy, the Department of World Trade was recently created, which will improve our access to world markets, educate our State's industries as to opportunities overseas, and conduct research regarding additional opportunities for Virginia's products. Recently the Governor did an overseas mission to the Far East which created an opportunity for the sale of dairy cows to Turkey. This is but one illustration of how traditional agricultural products can be marketed worldwide.

Diversify Economic Base

The second strategy for rural development is to diversify and expand the economic base within Virginia's rural areas. Virginia's focus has been on basic industry development. Basic industry includes manufacturing, tourism, and basic service industries. In addition to promoting private sector development, the State has actively looked for opportunities to locate state and public facilities in rural areas as an economic development strategy. The construction of two state prisons--one in Buchanan County in far Southwest Virginia and one in Emporia in Virginia's Southside--will increase employment by 258 and 465 employees respectively. This represents a significant job creation activity in these rural areas.

In addition to state facilities there are other options for public facilities location as an economic development strategy. Charles City County recently negotiated an arrangement with a private developer for a major $30 million regional land fill which will employ approximately 100 people over the next two years.

Virginia's Rural Development Strategy

Virginia's strategy for rural development has focused on four distinct areas--first, infrastructure development; second, business incentives; third, human resources development; and last, leadership and organizational development. Included under the infrastructure is transportation, water and sewer services, business sites and buildings, and community facilities. Included under the business incentives are worker training, business finance, technical assistance to businesses, access to new technology, and research and development. Included under the human resources development are basic educational opportunities, day care, and housing improvement.

Leadership and Organizational Development

Leadership and organizational development is the component that is absolutely required for rural development--not just growth. Growth in our rural areas can be accomplished through increased employment and expansion. Development is a concept that is necessary for continued self sufficiency and growth without continued dependence upon state or federal government. It is not satisfactory just to provide money to our rural areas. It is important that we instill within the people of our rural communities the ability and the capability to continue to grow as changes in circumstances occur over time. It is important that we develop the organizations and the people so that they have the ability to meet future challenges and adapt to this rapidly changing world in which we live.

Rural leadership development has been integrated into a number of Virginia's programs to further rural development. One of the premiere programs is the Certified Business Community Program provided through the Department of Economic Development. This program established standards that rural communities must meet in order to be designated as a Certified Business Community. Virginia's Main Street Program is another example of this organizational development activity to strengthen Virginia's smaller downtown areas. Similarly, Virginia offers a technical assistance program for tourism development in our rural communities. All of these programs have similar characteristics. They require that the locality have an organization devoted specifically to a particular purpose. That organization is required to have a budget and staff adequate to carry out its mission. The organization must have a marketing and promotion program to carry out its development objective. As with any business, it is important that there is a product to be marketed. This product may be tourism opportunities within a region, a downtown, or business and industrial sites of a community.

Most often, development organizations in rural areas cover a multi-county or regional area. It is important that there be sufficient resources devoted to a particular activity or task. Often, a community of 1,000 people or a county of 10,000 does not have the financial or personnel resources to devote to an ongoing development organization. In rural areas the economy of an area spans several communities, thus activities to address restructuring of the basic economic framework require regional solutions. Without strong local and regional leadership, assistance from the state or federal government can only be partially effective.

Again, our desire is long-term development of a region rather than short-term project orientation. It is important to provide organizational mechanisms in rural areas to help rural people help themselves. Virginia's Coalfield Economic Development Authority is an example of the State enabling localities to create a unique local developmental organization with financial resources.

Infrastructure Development

One of the foremost keys to economic development is the adequate infrastructure which can support diversified economic activities. First and foremost, transportation facilities must provide adequate access to markets. Governor Baliles took a major step in 1986 and recommended a major statewide transportation initiative. This initiative will yield $420 million per year for the improvement of transportation facilities across the State--many of these in rural areas. More recently, the General Assembly enacted a bill to sell forty year bonds (dedicating $40 million a year over the next forty years) to improve Route 58 from Cumberland Gap to Virginia Beach. This was done as an economic development initiative, not to relieve traffic congestion in our urban corridor.

Water and sewer are also of utmost importance in support of expanded business activity. Virginia contributes $10 million per year into a Sewer Revolving Fund for the upgrading of sewer systems across the State. This fund is matched by EPA appropriations.

The Community Development Block Grant Program has been used extensively to help upgrade the water and sewer facilities in our smaller communities across the State. Approximately $12 million per year has gone towards water and sewer facilities construction that benefit low-income rural citizens of the Commonwealth.

Availability and adequacy of business and industrial sites and buildings in rural areas are of utmost importance to business expansion in rural Virginia. Five million dollars was appropriated for the Community for Opportunity Program. This program would allow for the construction of a 160-acre business and industrial park in the coal fields of Virginia. This program is based upon local leadership development and a combination of state programs to insure adequate transportation, business incentives, and human resources development within the region. While one site was funded in Southwest Virginia, "target industry studies" are being conducted in the Alleghany Highlands, Southside, and Eastern Shore areas of Virginia to set the stage for future expansion of this program.

In addition to the regional industrial park, $13 million has been appropriated for infrastructure development supporting business and industrial sites in Southwest Virginia. Even before improvements were made to property under the Community for Opportunity and Southwest Virginia Infrastructure programs, industry announcements have been made. Three industries have agreed to locate in Southwest Virginia as a result of these investments.

Another program that is just getting off the ground is Virginia's Shell Building Program. This program would provide for the construction of eight 50,000 square foot shell buildings on prepared industrial sites across rural Virginia. Seventy percent of the industrial prospects coming to Virginia last year were seeking existing buildings. This program is geared to providing the types of facilities that industries are requiring.

Federal programs are currently targeted towards supporting the location of industry once the industry has agreed to locate. The federal programs are not directed towards providing the capacity at the local level to handle future business locations. Without providing water, sewer, land, and building capacity needed by business, it will be difficult to market rural areas when such capacity is present in most of our metropolitan areas.

Business Incentives

In addition to having the infrastructure necessary to support business growth, incentives must be provided to help develop business activity within the rural areas. First and foremost is the ability to provide a well trained labor force, tailored to the specific needs of the business. Virginia's Industrial Training Program has been one of the most important incentives we have been able to offer to new and expanding businesses in Virginia.

In addition to adequate training, Virginia provides financial incentives as well. The Small Business Financing Authority provides fixed asset and working capital financing, using tax exempt and taxable bonds. The General Assembly has appropriated $5 million to begin capitalization of a revolving loan fund which provides low-interest fixed asset financing for business development in rural areas. In addition to this revolving loan fund, the General Assembly just appropriated $1 million to be matched by $5 million from state financial institutions for venture capital and a loan guarantee program. These funds have been appropriated to VEDCORP, a subsidiary of the Rural Virginia Development Foundation. These funds would be specifically targeted to micro business development in rural areas.

Financing alone does not insure successful small businesses. One-half million dollars has been appropriated for the creation of small business assistance centers throughout the State. In addition to this, the Center for Innovative Technology finances entrepreneurship centers and incubators in the State--several located in rural Virginia. These activities have been closely associated with the business assistance provided by the State's twenty-two community colleges. Oftentimes, the downtown areas of Virginia's small towns serve as incubators for new and fledgling businesses. In these downtown areas, we have many of the support services necessary to support the small business.

Once businesses have matured, often technical assistance is needed to upgrade the technology of the business or to introduce new technology which will help create new products or restructure the method of producing an older product. The Center for Innovative Technology, through our educational institutions in the State, provides the research and access to this new technology. In addition, as a part of the Community for Opportunity Program, we have proposed a research and development voucher system where the State of Virginia would assist in covering one-half of the cost of product development from the research stage to the actual production stage.

Human Resource Development

Insuring that our rural residents have adequate access to a full range of human services is important to their development functioning in a modern society. First and foremost is the provision of adequate educational opportunities. It has been a goal of this Administration to increase the standards of quality of education throughout the Commonwealth and decrease the disparity between rural and suburban school systems. In order to strengthen our local school divisions, the State increased its funding for local education by over one-half billion dollars. Hopefully, this increased funding to primary and secondary education will improve the quality of instruction available in rural areas.

Supplementing this appropriation have been several programs to modernize the instructional capabilities in some of our most rural school divisions--data processing equipment, telecommuncation linkage to other school systems and institutions of higher learning are being funded. A recent report prepared by the State Board of Education recommends major changes in our vocational programs to make them more compatible with the existing and future job markets in Virginia. Supplementing the increased support for local school divisions has been increased support in our higher education system--particularly the community college system which serves our rural communities.

Let us not forget those who do not have the basic literacy skills in order to take advantage of educational opportunities in the State. We have appropriated $4.3 million in support of adult literacy efforts in the Commonwealth. Education is the key that unlocks many opportunities for individual growth and development.

Inadequate housing can also be a major deterrent to participating in many job and educational opportunities. The General Assembly appropriated $47.5 million to improve housing conditions throughout the Commonwealth. The majority of this money will be spent to rehabilitate existing housing resources so that individuals can remain in their homes and enjoy decent, safe, and sanitary living conditions.

I hope that the brief outline of the above programs provides you with an overview of the comprehensive approach that Virginia has taken to improving the quality of life and development opportunities in rural Virginia. Rural development cannot be viewed as a single program or a single solution to the problems of our rural areas. A variety of solutions, based upon local leadership and organizational development, have to be implemented. We at the State can only assist our rural areas when the leadership and organizations are vibrant. It is our goal to provide rural "development"--not just "growth."

Need

While Virginia's efforts are extensive in nature, there are still many needs that go unfulfilled. Federal financial support directed towards the following areas will help meet unmet needs. Basic utilities with the capacity to handle growth must be provided. Developed and available business and industrial sites and buildings are important for the location of new or expanding businesses. Incentives to businesses for locating in rural areas rather than in our metropolitan areas are important. Training and employee services are essential. Management assistance to existing and potential businesses must be provided. Access to new technology and the ability to retool existing businesses is important for the continued success of those businesses in our modern society. Providing educational opportunities for a broad range of our citizens is important so that they can take advantage of employment opportunities in our society. The development of ongoing organizations which can sustain changes in economy, changes in administration, and changes in society must be developed.

Virginia, as well as many other states, is actively concerned about the economic prosperity of all our citizens. We are making major efforts to develop those areas of the State that are lagging behind. In Virginia the majority of these areas are in our rural communities. Since we have a long history of working relationships in these rural areas, we can assist in framing the options and opportunities that are available to our rural communities. We do have an elaborate range of developmental programs that are targeted to rural areas and that will help rural areas compete with our more prosperous metropolitan communities.

Rural development legislation at the national level should recognize the broad range of programs offered by the states and should complement these programmatic efforts. We ask that you work with us, don't bypass us, and hopefully don't repeat the mistakes we have made. We share a common objective--"development" (not growth)--of our rural communities. We ask that the federal government join with Virginia and the other states as co-investors for the development of rural America.

Thank you very much for the opportunity to make this presentation. I will be glad to provide greater details on the programs that I have briefly mentioned during my remarks to the Committee.

The **Chairman**. Thank you.

You know, we mentioned, don't make the mistakes. Of course, that is one of the reasons for these hearings. We want to hear the success stories, but we want to hear mistakes, too, because I keep well in mind the comments made by Senator Kerrey earlier about not just grabbing things because they are there. Let us make sure it works.

To go back with Mr. McConnell, I would like to go into one area. The NCIC started out with a revolving fund. Now, you are in the Northeast Kingdom of Vermont and in upstate New Hampshire. How did you get the local banks involved in your lending area? How did you get local banks to——

Mr. **McConnell**. To talk to us?

The **Chairman**. Well, yes, to talk to you. How did you get them to actually pay attention that this was a worthwhile investment and to use some of their own money to build the revolving fund, because otherwise your revolving fund, I would assume, would have been exhausted almost immediately?

Mr. **McConnell**. You are right, Senator. It took a little effort. We had to convince the banks in a variety of ways that we were serious about the task at hand and that we were bringing capital to the situation.

We developed various programs of assisting businesses in putting together business plans, reviewing those business plans with the banker so that the banker could see that, in fact, we had a level of expertise in terms of business review.

We also put deposits in the banks in the form of guarantees for small businesses to encourage the bank to lend. The third element was to be responsive. One of the problems that the bankers had encountered was slow response time in dealing with any kind of a governmental program, and what we were attempting to do was demonstrate to them that we were responsive in a timely way and would get back to them as quickly as possible with a commitment.

So those were the initial efforts that we undertook, and as confidence developed on both sides that we were serious and we wanted to make things happen, they gained confidence and we did more together.

The **Chairman**. So that you wanted to make sure, then, that instead of them hearing the usual thing, the check is in the mail, they could know that it actually was there?

Mr. **McConnell**. That is correct, absolutely.

The **Chairman**. The reason I ask this is a major part of our bill is going to be to create hundreds of these kinds of local revolving funds to help small, local businesses. So you may find that some members of my staff or the committee staff may be up there to follow you around, if you are willing, just to see exactly how it works, because we want to make sure, if these revolving funds can be an effective way of helping a business to start or expand or create more jobs, how best to use them.

Mr. **McConnell**. Yes, we welcome that, Senator. We have met with your staff on a couple of occasions already to demonstrate how the program works.

The **Chairman**. You know, when you talk about the Northeast Kingdom where you operate in Vermont, and upstate New Hampshire, northern New Hampshire, there are a lot of similarities, I would expect, between the two areas, but what do you think about that model?

You do talk with others who work like this in other parts of the country. Can some of the models that you have work in Mississippi, Virginia, Indiana, and other places?

Mr. McCONNELL. I believe so. I think that the important aspect of the model, if we call it that, is one of locally based effort. We work within a region. That may cover a lot of square miles, but we are part of the community fabric in that region.

We are in contact with the banking community, with the business community, with the towns in that area. We are part of the infrastructure that is trying to deal with economic development, and I think that is an important element. It is not coming from Washington. It is here, and we have the same focus and interest that those based there do. That is very important.

I think that there are other examples of other organizations, such as Larry's and others in Alaska and Kentucky, where that local base, coupled with capital and expertise, has been able to accomplish similar types of results.

The CHAIRMAN. When I graduated from high school in 1957 in a high school class of 29, I think most of the members of that class felt they had to leave Vermont to even look for jobs.

You have a lot of small high schools in the areas, both in New Hampshire and Vermont, where you are. Are you starting to be able to say to these high school graduating classes, stay around, we are going to have jobs here?

Mr. McCONNELL. Yes, Senator. I have two sons, both who went through Danville High School in Danville, Vermont, where I live. I think my son's class—the oldest one's, had about 40 students that graduated. He has gone on to college at this point in time, but during his youth while he was at home, he was unable to find work, neither during the summer, or any opportunities upon graduation.

And I have known a number of rural kids that he went to school with. They happened to win the State basketball championship the year he graduated, so I got to know a lot of the kids in the school. I went to all the games. Recently a number of the kids have been, for the first time, finding meaningful work in the area.

The Senator asked earlier about rural America and why is it important for rural America to exist, and I think it is a sense of community. It is a sense that people want to be able to be part of a fabric of a community and have an opportunity to stay within that community, raise their families within that community, and be able to find meaningful employment in that area.

It has only been in the last couple of years, quite frankly, that the youth have had that opportunity, and I think that the outflow of the youth in the Northeast Kingdom has diminished a great deal in recent years. But for a number of years, as you well know, Senator, we were largely a manufacturing area in New Hampshire and Vermont, years ago before textiles went south and shoes went offshore.

So we have had a long history of decline in that area, and a long history of outflow of the youth of that area. And I think in recent times, that is improving, but for a long time it has been the automatic condition that the youth, in order to find employment, would have to go somewhere else or accept limited employment, seasonal employment, subsistence level living as the only alternatives.

The CHAIRMAN. You know, that is why we are having these hearings. The most important thing that could come out of a rural development bill is to hold that kind of hope for jobs and for people growing up in rural America, because if we lose our youth, we lose our future. If we can retain them, we keep our future. If we can do that, we will have accomplished a great deal here, and that is what I hope we do accomplish.

Dick, I have to think when I graduated from that little, tiny high school in Vermont, I had an uncle of mine who told me, coming from a small town high school, a graduating class of 29, I would never amount to anything. I did ask my uncle a couple of years ago what he thought now and he said nothing has changed his mind at all. [Laughter.]

So I guess it is in the eye of the beholder.

Mr. Farmer, you have talked about some of the obstacles to economic growth in the Delta region. You have a lack of capital for investment and educational problems, housing shortages, safe drinking water, and so on.

What is the ability of the local governments in the Delta region to provide the needed water and sewer and housing and economic development? Can they do it alone?

Mr. FARMER. They can't do it alone, Senator. They are severely limited. They don't have the necessary financial dollars. They don't have partners, and oftentimes they have very willing elected officials, but persons who are not equipped. They don't have access to the technical know-how, oftentimes, to compete in a very competitive market now for scarce dollars for physical infrastructure improvements.

Outside of that, with a few exceptions for your larger towns and cities, most small rural local government units just lack the financial wherewithal to be able to move beyond physical infrastructure.

In fact, many are afraid that what they have done is used Federal grant moneys to create concrete reservations. How are they going to even maintain the systems they have put in place?

So it is a very fundamental question, and it is like considering your needs versus wants. I need a sewer system; I want some industry. I need industry, but what comes first and how do I get it?

The CHAIRMAN. And the industry is not going to come there unless they have the infrastructure, and the infrastructure you can't pay for unless you have the industry.

Mr. FARMER. Oddly enough, one industry that has the money in a city like Greenville which—our Highway 82 signs says "The Pearl of the Delta," and we are looking for the pearl.

The CHAIRMAN. You have the sign.

Mr. FARMER. We have the sign; we have the money, even. But industries—their major problem in locating in Greenville is getting top-notch (executives) persons to work for those companies who want to locate there. We don't have the basic amenities that many folks take for granted in terms of our quality of life.

Education—I had to say this, but unfortunately race and racism is still a big consideration, some real, some perceived, others just imagined. But it is an across-the-board problem.

The CHAIRMAN. Mr. Barber, you talked about the things that are being done in your State. Can the State and local governments do it alone?

Mr. BARBER. No. I would reinforce what Mr. Farmer just said. We need the combined effort of everybody to really address the needs at that level. We do have a lot of resources that we bring to the table and we would like to marshal those in combination with the local resources as well as Federal resources, and we do in a number of cases do that. But, again, there are a lot of localities, a lot of people, that go wanting because there isn't enough.

The CHAIRMAN. Thank you.

Dick.

Senator LUGAR. Well, Mr. Chairman, I would just simply say that I appreciate each of these three witnesses for the diversity of background. I think it is important that they have made the point that rural America is very different geographically and because of all of the traditions of our country, some of them good, some of them not.

I think this has been a very helpful hearing in outlining how broad the charter and the mandate of this project needs to be, and I suppose it is especially true as I listen to Mr. Farmer. The tremendous privation in the Delta area and in many of the constituencies that he serves simply outlines that that is a very different problem altogether, maybe not approaching the Third World, as you suggest, but still one of very, very great poverty and difficulty.

And having, you know, witnessed this in other countries—often, we go abroad and we take a look at diverse ways in which people are making a living there and the problems they have. I am struck by the analogy there that this is a very desperate situation that goes maybe beyond our ability in this committee, but certainly the contribution we can make could be substantial.

So we will have all that testimony in mind, and I appreciate very much your calling the hearing.

The CHAIRMAN. Thank you.

I will keep the record open for a few days if anybody has other questions, or if the witnesses want to add further things. Gentlemen, I thank you all very much, and we stand in recess.

[Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 9:30 a.m., in room SR-332, Russell Senate Office Building, to continue hearings on Rural Development Issues, under the Subcommittee on Rural Development and Rural Electrification, Thursday, May 11, 1989.]

RURAL DEVELOPMENT ISSUES

THURSDAY, MAY 11, 1989

U.S. Senate,
Subcommittee on Rural Development
and Rural Electrification of the
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room SR-332, Russell Senate Office Building, Hon. Howell Heflin (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Heflin, Conrad, and Baucus.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator **Heflin**. We will start our hearing this morning.

While in most urban areas the 1980's were years of economic recovery and prosperity, this has not been the case in rural America. Rural problems run much deeper than agriculture, with its well-known income crisis. Rural community problems also include inadequate water and sewer systems, poor schools, lack of access to quality medical services, and shortage of funds to solve these problems.

Rural economic conditions, compared to urban areas, have worsened significantly in the 1980's. The magnitude of these problems is shown by these selected comparisons of rural and urban areas in the late 1980's:

Rural unemployment rates are about 31 percent higher; rural per capita income averages 25 percent lower; rural poverty is one-third higher; rural school dropout rates are higher; the rural population has higher proportions of both older persons and younger persons—these groups require higher expenditures per capita on both health care and education; and the economic recovery in agriculture, mining, forestry, and light manufacturing has been very slow.

Compounding these rural economic problems has been a reduction of nearly 50 percent in funding for Federal Government programs in rural areas in the 1980's.

Rural economic development efforts must begin with local initiative and be guided by local leadership in both the public and private sectors. It is essential, however, for the Federal Government to be an active partner in these efforts. The Federal Government should help provide an environment in which local efforts can be most effective. Federal programs can be a catalyst for rural growth and development through programs that:

Help rural people create more jobs; help improve the quality of community facilities—such as water, sewer, and telecommunications—that support economic activity; and strengthen educational and health services to improve the skills and abilities of rural people.

The 1980's have seen increasing rural outmigrations to the cities and rural unemployment and poverty rates substantially above those in metro areas. Rural people also have more limited access to essential public services and facilities.

These rural conditions tell us that the time has come for the Federal Government to reassess its role and responsibilities regarding our 62 million rural citizens.

Our first witness today is the Honorable George A. Sinner, the Governor of North Dakota, from Bismarck.

Governor Sinner.

We're going to ask everybody, if they will, to summarize their testimony. Their written testimony will be made part of the record, and we will limit their summary to about 5 minutes.

STATEMENT OF GEORGE A. SINNER, GOVERNOR OF NORTH DAKOTA

Governor SINNER. Thank you, Mr. Chairman.

I am here in part to speak, or mostly to speak on behalf of the National Governors' Association, but I will make some personal comments as well.

I thank you for the work you are doing, and for the commitment of the committee to provide some new strength and new directions, if necessary, to rural development.

Now, quite clearly the urbanization of America is at the root cause of many of the Nation's problems. Increasing crime, crowding, chaos in education, drug control, and infrastructure maintenance is, in many ways, an exact derivative of the urbanization of America.

There is no use going through all the causes, but the macromismanagement of the fiscal and monetary policies of this country have exacerbated that by hurting the entire production sector of America in ways that I am not going to go into, except to say that all of the production sector has been damaged, from farming to forestry, to mining, manufacturing and energy.

All of those, with the possible exception of manufacturing, are essentially rural industries, and the derivatives of the strong dollar that existed for so many years in this country literally decimated the economies of many States.

And so, to sum it up, the States are having a devil of a time keeping things together, providing adequate services for their declining and damaged economies, and the people who are the substance of those economies.

So what to do. Certainly, many of the current programs can stand enhancement, as you have pointed out. I have to mention Senator Baucus' proposals—they look very good—the emphasis on telecommunications, strengthen support for SBA—those are good proposals.

Senator Conrad's proposal of agriculture research commercialization is also a good one, and I mention those particularly as an aside, because I don't want to in any way diminish our excitement about the effort of the committee overall.

The States have found CDBG funding programs to be very useful, and the kind of program that we can manage in ways that fit the particular and peculiar State needs.

A lot of the other programs proposed in the committee proposal are consistent with this enhancement of existing programs, and we are very supportive of that.

I have also been asked to comment on the RECA conduit proposal. The NGA—and I have to be careful in my comment here, as in the other ones—some of these are more personal comments, because the NGA has not had a good chance to really look at this whole thing in its entirety.

While I personally have had—and have seen the tremendous value of the electrification of rural America, what it means in historic perspective and what it means on an ongoing basis is so significant that I think the major point here is that, as you proceed I am delighted to see in this and other areas, you are mindful of the need to merge the private sector, which the REC's are a part of—to merge that private sector with the public effort.

Because if we lose track of the real world of the private sector, we will in the end, obviously, fall on our faces.

NGA, I think, is sufficiently far along in its analysis to say that we like the idea of a Federal rural development oversight board. We think such a board would be in an extremely good position to mesh, in some ways, the maze of Federal help and Federal agencies with individual State strategies.

Those individual State strategies are so critical to any long term success because each State is somewhat different—each State has a different set of circumstances, and so the State strategies need that sort of Federal oversight board to help make the Federal programs mesh well with the individual State strategies and individual State needs.

Finally, all of the traditional programs—the grant and loan programs, and several of the proposals in the bill, I think will help new and growing small businesses. I think there is another point that needs to be made here, that is very important long term.

If we are really going to significantly turn around the urbanization trend in America, which I think we must do, just simply for the sake of the cities themselves, because of the mammoth problems that are descending on them as their population grows, I personally think we're going to have to look at the more traditional incentive programs, through some sort of tax incentive, to get those big companies that are expanding to find an incentive to break the inertia of the urbanization.

I am of the belief, personally, that some job tax credits, maybe rapid depreciation, maybe some investment tax credits, are going to have to be put in place to help those companies that are expanding move into the areas of sparse population, the areas of the

Nation that clearly want their businesses, need them just to provide a minimum population to support a good Government service.

I feel very strongly about that. I am not going to expand on it any more than to have said it in that way. It is something that I spend a lot of time working on with major companies.

There are a lot of companies that have lots of money, and for whom money is not a problem. What they need is some impetus to break this urbanization trend, and move to the rural areas, where clearly the workforce is better.

There are many things that are better, but there is this mindset of urbanization that perpetuates itself in ways that are probably too numerous and too complex to go into here, but I personally believe that, while I know that the tax incentive jurisdiction is in another committee, to me it is fundamental that if we are going to stop this urbanization trend we must look in that area to move some of these major companies into rural areas.

Mr. Chairman, I want to thank you for the opportunity to be appear before you this morning, and to pledge the support of the National Governors in the development of the rural development legislation, based on a framework of a true partnership.

What Congress and the administration need to do is establish a coordinated Federal-State response to rural development. I personally will do everything I can, and so will the National Governors, in trying to help the committee come to grips with this very, very severe National problem.

Thank you very much.

[The prepared statement of Governor Sinner follows:]

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TESTIMONY
OF

GOVERNOR GEORGE A. SINNER

before the

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
SUBCOMMITTEE ON RURAL DEVELOPMENT
U. S. SENATE

regarding

THE RURAL PARTNERSHIPS ACT OF 1989

May 11, 1989

Mr. Chairman, members of the committee:

I appreciate your kind invitation to attend this hearing on rural development and the role the federal government might play to serve the needs of our 62 million rural citizens.

I am impressed that the Senate is willing to consider a comprehensive program for rural America. It is much needed.

As Chairman of the National Governors' Association's Committee on Agriculture and Rural Development, I pledge our cooperation in an effort to help congress in any way we can to develop a sound rural development policy which makes sense to our rural citizens and is acceptable to our urban neighbors as well.

It is important we avoid the plaguing problems of the urbanization of America.

With incredible concentrations of carbon monoxide, airport crowding disasters, crime, and waste, we must find ways to attract large existing businesses to more profitable, more needy, and more appreciative rural areas. The whole nation will benefit.

One must be struck by the paradox of the nation's problems expanding exponentially in our cities as almost the direct result of too many people even while the departure of people from and low population in rural areas causes sociological, economic and governance problems in many states. So I ardently applaud your effort.

Rural Development Myths

Recently a study was done by the Council of State Policy and Planning Agencies on rural enterprise development in North Dakota. I believe the findings apply to all rural states.

Myth 1: North Dakotans, particularly farmers, are not entrepreneurial. -- The CSPA study tells us that 23% of North Dakotans are employed in businesses that did not exist before 1980. People in rural areas are extremely entrepreneurial.

Myth 2: North Dakota is the most rural state in the nation and highly dependent on agriculture. Therefore, rural must mean agricultural. -- The CSPA study tells us that only 2 to 4% of businesses created in North Dakota since 1980 are agricultural. In addition, all of the other studies and projects we've undertaken (NGA, WGA, etc.) suggest that we need to stop equating "rural" and "agricultural."

Myth 3: Even if North Dakotans wanted to be more entrepreneurial, they couldn't because the capital isn't there. -- about 52% of those new business startups in North Dakota came about through bank financing. In addition, a study done at NDSU tells us that more than $3 billion of North Dakota funds are invested outside of North Dakota. So, the capital is there and used. We just need to find even better ways to keep capital in the state.

Myth 4: To the extent that there is entrepreneurial activity in North Dakota, it is centered in urban areas. -- The CSPA study tells us that the rate of growth is somewhat higher in urban areas but close in rural areas, both as to type and number of businesses.

Myth 5: Businesses that have grown in North Dakota since 1980 came primarily from out of state and are not indigenous. -- 64% of the businesses were started by North Dakotans.

Myth 6: Businesses which have grown in North Dakota did so because old businesses failed or because old businesses were taken over. -- 83% of these businesses (since 1980) started from scratch, and 74% started them because they thought they had a good business idea (for a positive rather than a negative reason).

Myth 7: In light of our high level of education in North Dakota and the high number of students we send on to college, it is clear we are preparing our skilled young people to leave the state. All this education isn't paying off for North Dakota. -- It's true we export many of our educated young people, but 87% of new North Dakota business owners completed high school or went beyond; and more than half those new business owners are under age 38.

Myth 8: Most of these new businesses die quickly. -- The survival rates of North Dakota new businesses across North Dakota range from about 60% to 80%.

Myth 9: Rural development, to be meaningful at all, must begin at the state and federal levels. -- Virtually every recent study -- by NGA, WGA & CSPA -- suggests that community attitudes, actions and leadership are primary ingredients in rural economic health.

Myth 10: All small rural communities in North Dakota will die. It's just a matter of time. Therefore, state and federal support for rural infrastructure development is just pouring good money after bad. -- The CSPA study shows that jobs are being created across the state, in small and large communities, with close to the same percentages of startups and failures in all areas. leadership and attitude make a tremendous difference.

Myth 11: Rural employment is essentially self-employment. -- The information from the CSPA study tells us that these new businesses began employing 2.6 employees per firm and now average 3.8 to 5.1 employees. One-third say they will be expanding further. So there are truly many mythical attitudes about rural America, even among alleged "empirical" reporters. They must be dispelled.

A recent NGA report entitled, "A Brighter Future for Rural America?", constructed a statistical model to predict employment change in 548 rural counties; and it found that 15 variables previously thought to be the most important factors in employment changes explained only 17% of the variance. Among those factors, less influential than expected, were: distance from metropolitan areas, access to interstate highways, presence of state universities, income levels, education levels and federal development funding.

In studying 48 "high growth" rural counties, the report also found that several of the keys to success were: heavy reliance on "conventional manufacturing in addition to high-tech and service industries; emphasis on entrepreneurship as opposed to recruiting; a well-oriented partnership of local business and government leaders; a full-time economic development professional and state and federal financial aid.

I believe that exploding these myths about rural development is very instructive and demonstrates the need to work together cooperatively to bring development and prosperity to our rural areas.

Guiding Principles for Legislation

Based on the studies cited above and my own experiences in North Dakota, I recommend that rural development legislation be developed on several guiding principles:

- Decisions leading to successful economic development are best made by those closest to the problem. Please do not empower a federal bureaucracy to allocate rural development resources based on local applications that force local, regional and state development entities to compete against each other. I urge you to establish a local, regional, state, and federal partnership so that these decisions are made in a cooperative way.

- The problems of rural America are numerous and diverse. It is important that new federal resources be available to respond to the diversity of needs. Please allow for flexibility in whatever program you devise so that local needs can be met.

- Federal resources are unfortunately limited for addressing the full range of problems confronting rural America. Any program should seek to build an array of partners, including state governments, and challenge them to bring resources to the table.

- Numerous federal, state, private and philanthropic resources have been invested in recent years to build local capacity to do economic development. Please take advantage of that capacity and do not use precious resources to create new, competing institutions. It is incumbent upon the federal government to exercise leadership in bringing the various players together so that we all are working in tandem to address the problems of rural America.

- I understand that a major element of the concept paper prepared by your staff is directed at enhancing rural electric cooperatives to do rural development. This approach may have a great deal of merit but NGA is currently evaluating it and cannot endorse it at this time. Personally, I can attest to the historic importance of electric service to rural business and rural development. In addition, it is critical that a meaningful public-private cooperation pervade all state strategies. The most important point is to ensure the flexibility to enhance individual state strategies for rural development so that the resources of all appropriate entities are used intelligently and in a coordinated fashion.

Framework for Rural Development

As you know, the nation's Governors have been very involved in rural development issues and have worked with this committee in an attempt, not yet successful, to write and pass sound rural development legislation. We intend to remain active in the legislative process on this issue, and intend to be constructive in our approach to legislative proposals. In order to be constructive, we are developing a framework for rural development which we can present to you later. We believe this framework will offer the best promise for the true federal-state-local-public and -private partnership which successful rural development requires. In the concept under discussion:

- A new rural development authority/board would be established.
- The board would be capitalized with several hundred million dollars and would have authority to support rural development in a variety of areas, for example, job creation, business development, infrastructure development, health care, human resource and education development, housing, etc.
- State development strategies clearly are essential to this process and federal allocations should be made consistent with the state strategies.
- Although various components or aspects of the strategy might well be administered by regional, local, public, and private entities, the state would serve as the coordinating entity for preparing and administering the strategy.

Tax Incentives

My own personal experience as a businessman in North Dakota makes me believe strongly that a key to successful job creation is helping business grow and develop. I believe that tax incentives are an important part of that process. I would ask that you consider talking with your counterparts in the senate to explore the option of providing tax incentives for business growing and/or locating in distressed rural areas.

Areas of need might be determined by population per square mile or by combining that with population declines.

Another way that those areas could be identified would be as the Western Governors' Association (WGA) did in a recent study.

It used historical data from 1969 to 1985 based on population (from the Census Bureau), employment (from the Bureau of Labor Statistics), and income (from the Bureau of Economic Analysis).

It then calculated the percentage changes in these areas per rural counties and states as a whole and compared them.

Based on their relative condition vis-a-vis their state, WGA classified rural counties as "healthy," "healthy but declining," "disadvantaged," and "disadvantaged and declining." By the way, in its study, WGA determined that almost 20% of all counties in the western states were "disadvantaged" or "disadvantaged and declining."

The federal government could use this typology to categorize rural areas for the purpose of determining appropriate tax incentives.

Another way of selecting distressed rural areas would be through a method which was used in Arkansas.

Those selection criteria included: per capita incomes, average unemployment rate, percent of families below the poverty level, percent of renter-occupied housing, percent of personal income from transfer payments and knowledge of state officials about county needs.

The degree and the length of difficulty that regions experienced would determine the length of time any tax incentives would be available.

A possible federal incentive that could be utilized would be "job tax credits."

Job tax credits for employing people in distressed rural counties could be, for example, 20% of the wages of such employees.

Another possibility could be investment tax credits. Still other possibilities could be lower tax rates on corporate income generated from distressed rural areas.

Accelerated depreciation upon investments in distressed rural areas is yet another possible federal tax incentive.

Other Rural Development Tools

Still another possibility could be federal procurement set aside priorities for distressed rural areas.

It is major expanding businesses which would, I believe respond to incentive approaches to provide a deterrent to continued urbanization. Clearly, existing grant and loan programs are doing a great deal of good, especially for beginning businesses.

As you review this whole area, you might want to enhance existing programs which have worked well for rural America. They include the Urban Development Action Grants (UDAG), the Community Development Block Grant (CDBG) programs, and the Small Business Administration (SBA) program.

As I said, they have worked well.

You should also review programs that have not worked as well as they might and try to improve them.

For example, you have put funds into rural development for research and feasibility studies through the Economic Development Administration (EDA) and the Farmers Home Administration (FmHA).

Access time to these funds should clearly be shortened . . . And they should especially help primary, new-wealth-creating businesses.

Consideration should also be given to developing a telecommunications fiber optic network, perhaps modeled after the Rural Electric Administration (REA) program.

That is an area where rural areas can develop a very strong service industry.

Agricultural Research and Commercialization Corporation

It is my personal hope that you will also include in a rural development bill Senator Conrad's proposal to establish an Agricultural Research Commercialization Corporation (ARCC).

The development of businesses to manufacture new industrial products from agricultural commodities represents one of the best opportunities for rural development in states like North Dakota because it builds upon our strengths: abundant agricultural resources, an innovative agricultural research system, and a true entrepreneurial spirit.

In fact, I foresee ARCC as having a major impact on rural America's ability to take advantage of the possibilities to gain jobs, income and opportunities.

As a Governor, I am always interested in innovative approaches to business development.

ARCC answers a critical need for seed capital and technical assistance to start up new businesses.

I strongly believe that such an organization will significantly increase economic activity in rural areas.

Conclusion

Again, Mr. Chairman, I want to thank you for the opportunity to appear before you this morning and to pledge the support of the nation's Governors in the developement of rural development legislation based on a framework of true partnership. What Congress and the Administration need to do is establish a coordinated federal-state response to rural development. I look forward to working with you and others in the months ahead to ensure the passage of sound rural development legislation.

Senator **Heflin**. Thank you, Governor.

We are pleased to be joined by Senator Baucus.

Would you have an opening statement that you would like to make, Senator?

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator **Baucus**. I do, Mr. Chairman.

Thank you, Mr. Chairman.

The issue really hits home.

I would like to follow up, frankly, on the comments of Governor Sinner, a friend of ours to the east of Montana. I have known Governor Sinner for some time, and I am very proud of him, all of us in Montana are proud of him, as an advocate of rural America, those States that aren't quite as densely populated as other States.

Mr. Chairman, I would like to continue by pointing out that our State, Montana, has some of the same problems as does the State of North Dakota.

The last 8 years have been tough. Our basic industries have lost 12,000 jobs. Our paychecks have fallen by 25 percent. We are experiencing net outmigration. More people are moving out then moving in. Last year, in 1987, we lost population—a net loss of population.

As a consequence, we could actually lose one of our two congressional districts in the 1990 census. We are on the margin, it is in the balance—we don't know, but it appears as though we could possibly lose a congressional district.

Montanans are frustrated, they are angry, they are ticked off—upset with what is happening. They are losing jobs, losing income, and they see parts of the country and parts of the world, on the other hand, more wealthy, with more jobs and higher incomes.

Coastal States, in the main, Southern States, other countries, Asian countries, European countries, but we in our part of the world are just not part of the progress that other countries and other peoples are experiencing.

In my view, this is the result of deregulation policies in the 1980's such as deregulation of transportation industries, airlines, truck, rail; deregulation of health care, with rural hospitals at the short end of the new prospective payment system; and deregulation of financial services.

In all those forms of deregulation, it is the more populous parts of the country which benefit, and it is the more rural parts of the country who do not. There has been an unfortunate, affirmative Federal Government policy that tends to hurt rural America and tends to help urban America. That has to be stopped.

And frankly, I think it is important to look back at other times in American history when some of these same issues were faced. Congress decided in those instances that we as a country were one, not each out for her/himself, not each State out for itself.

Mr. Chairman, I would like to read a quote from Senator Daniel Webster, in a famous debate with Senator Hayne of South Carolina. At that time Senator Hayne argued that the citizens of the South should not pay for public improvements in the West, because they derived no benefit from them. Senator Daniel Webster said in reply, and I quote:

> In our contemplation, [States of the South and West] are parts of the same country. States, united under the same general government, having interests, common, associated, intermingled. . . . We do not impose geographical limits to our patriotic feeling or regard; we do not follow rivers and mountains, and lines of latitude, to find boundaries beyond which public improvements do not benefit us.

Our National motto, Mr. Chairman, is E Pluribus Unum meaning one out of many. We are several States, we are different peoples in different parts of our country, but we are one Nation.

Abraham Lincoln pointed out, during the 1860's, in that very catastrophic period in our country's history, that a house divided cannot stand. That is what we are experiencing now, Mr. Chairman.

It is not so much North versus South, East versus West, it is urban versus rural, and the country is becoming more divided. Our Government has an affirmative responsibility to bring America together, to not let us be divided.

And frankly, the comments of Governor Sinner and others; the telecommunications advances, capital improvement, perhaps tax incentives so that companies locate in rural America, will all help.

I, for example, have introduced a bill to assist in developing telecommunications technology for rural areas. We have an interstate highway system, why can't we have an interstate telecommunication system?

It is clear that interstate highways, which bind America together, would not have been built were it not for the Federal commitment. Montana can't pay for an interstate highway, North Dakota can't pay for an interstate highway—it has to be a national effort.

As we move into the 1990's, almost all information is going to be transmitted electronically. It is critically important that we have an affirmative telecommunications policy so that rural areas can be part of the national telecommunication system. It is just that clear.

It is clear to me, and to more and more Americans, that the time has come where we have to take aggressive steps and move forward.

Governor SINNER. Mr. Chairman, and Senator, I have commented already about your proposal, and while NGA hasn't looked at it, I think there is a lot of merit in what you are proposing.

I wanted to point out just one other fact. North Dakota, I think, had only one budget cut prior to my taking office. I have had to put in place four budget cuts, multitudinous tax alterations and increases, trying to hold things together. This year we passed a budget that was about equivalent to the budget proposed by my predecessor 4 years ago.

I am just trying to give you some idea of how desperately hurt the economies in the production States have been. Our State is a heavily production oriented State, but there are many States like ours, and you look at this incredible paradox of terrible problems developing as a result of urbanization, and our inability to stimulate—stop the stopping of that, bringing businesses and people back to the rural areas.

It is really a strange and tragic paradox, but it is a very real one, and we have to live with it.

Senator BAUCUS. Yes, that is right.

Senator HEFLIN. Thank you.

We have been joined by the distinguished Senator from North Dakota, Senator Conrad.

Do you have an opening statement?

Senator CONRAD. I do, Mr. Chairman. In the interest of time I will submit it for the record.

[The prepared statements of Senator Baucus and Senator Conrad follow:]

STATEMENT BY SENATOR MAX BAUCUS
THE RURAL ECONOMY: JOBS FOR THE 21ST CENTURY

Introduction

Thank you, Mr. Chairman.

This issue really hits home.

In Montana, we understand the problems of the rural economy. We understand them too well.

The last eight years have been tough. Our basic industries have lost 12,000 jobs. Pay checks have fallen by 25%. More people are moving out than moving in.

Montanans work hard. Many studies show that they're the best employees in the world. But they're falling behind.

E Pluribus Unum

Why? Because of federal policies that have, essentially, written us off.

Deregulate. Let the chips fall where they may. If a coastal metropolis thrives at the expense of rural America, so be it. It's the price of progress, and if people don't like it, they can pack up and move.

This heartless laseiz-faire approach punishes millions of rural Americans.

And it's inconsistent with our basic values. Our national motto, after all, is not "every man for himself," but "E Pluribus Unum."

Daniel Webster put it well during his famous debate with Senator Hayne of South Carolina. Hayne argued that citizens of the South should not pay for public improvements in the West, because they derived no benefit from them. Webster replied that

> In our contemplation, [states of the South and West] are parts of the same country. States, united under the same general government, having interests, common, associated, intermingled ... We do not impose geographical limits to our patriotic feeling or regard; we do not follow

> rivers and mountains, and lines of lattitude, to find boundaries beyond which public improvements do not benefit us.

We need to revive this notion. That we're all in this together. That we do not impose geographic limits on our concern for the economic well-being of American families. That, to put it more bluntly, people shouln't have to pack up and move to the Sunbelt to make an honest living.

Tools for Job Creation

That's what our effort, here, is all about.

We must help rural businesses create jobs for the 21st Century. So that our kids can stay in Montana, and Alabama, and Vermont.

To accomplish this, we must concentrate on a few basic tools.

One is telecommunications. Satellites and fiberoptic cables are, today, what highways and railroads were fifty years ago. If we want to compete, we've got to have the best, and that takes agressive efforts by both business and government.

Another tool is the most basic of all: capital. Today, we have plenty of small town entreprenuers. But they can't get the seed money they need to start new businesses and create new jobs. We need to create [redacted] incentives that will make this money available.

Moving Ahead

I've introduced bills that would promote these goals. And I look forward to the introduction of Senator Leahy's task force bill, which will contain innovative telecommunications and capital formation provisions.

With the leadership of Majority Leader Mitchell, Chairman Leahy, and Chairman Heflin, I am confident that we can develop a solid package and bring it to the Senate floor quickly.

Opening Statement of Senator Kent Conrad:
Committee on Agriculture, Nutrition and Forestry
Subcommittee on Rural Development And Rural Electrification

Thank you Mr. Chairman. I am pleased to participate in the second hearing on rural development held by the Agriculture Committee. I commend my colleague Senator Heflin for once again taking an important leadership role in rural development by convening this subcommittee meeting.

Some facts about rural America. Rural Americans account for a quarter of the US population, almost a third of the elderly and half the poor. Underemployment, unemployment, poverty and outmigration are increasingly serious problems in rural areas. Simultaneously, rural areas have faced declining support from the federal government.

In my own state, total personal income has fallen 3.2%, more than any other state in 1987-88. Studies indicate that regions of North Dakota have unemployment rates ranging from 3% to 8.5%.

Faced with few job opportunities and inadequate services and infrastructure, young Americans living in rural areas make an eminently rational choice: they leave. The Agriculture Department estimates that rural America lost 632,000 persons in 1985-86 alone -- a larger number than the average of either the 1950s or 1960s. My state experienced a net outmigration of over 12, 700 persons, or a net loss of almost 2 percent in 1987.

Yet, Mr. Chairman, rural America is rich. Over 90% of the country's resources are located in rural areas, and the vast majority of our foodstuffs are produced in rural areas. The fact is, despite these resources, rural America has faced a sustained recession. Why? Increasing global competition has crippled rural areas, which lag behind in the technological innovation required to compete in a new global economy. The rural economy must be diversified.

What can help? I'd like to talk about three proposals which I feel hold the promise of reinvigorating rural America: the Partnership Fund, a revolving loan fund for small businesses in rural areas; the placement of data processing jobs in rural areas; and, the Agricultural Research Commercialization Corporation.

There is a clear mandate to invest in rural America -- investment which will encourage diversification of and create jobs in the rural economy. The President's report on the State of Small Business indicates that the fastest growing sector of our economy is the small business: since 1980, 5 million small businesses have been created. Small business has been the major contributor in generating the nearly 18 million new jobs added to our economy since 1982. Rural areas must not fall behind in the creation, expansion and retention of small businesses. Rural areas do not lack innovative entrepeneurs -- they lack adequate access to capital and sometimes the expertise to receive the capital that is available.

This is why I will soon introduce a bill to address one of the major problems for businesses in rural areas, the lack of adequate capital. This bill allows state and local entities to receive federal funds to establish a revolving loan fund for small businesses in rural areas. The funds in the revolving loan fund will be made available to small business providing there is a 50% match for the funds from other sources. The revolving loan fund will increase the available capital in rural areas for small business creation, expansion and retention. The provisions in this bill will enhance the economy of rural areas and result in an increase in job opportunities.

The Federal Government can also help. I intend to propose legislation mandating a survey of all federal data operations to determine where they are placed. As businesses have found, the new information-based economy is making distances irrelevant. Telecommunications technology can bridge the gap between distant areas of our country. By placing some of the data based federal projects in rural areas, the federal government can equitably distribute its resources and reap the cost-effective benefits of the rural economy.

Finally, Mr. Chairman, I believe that Agricultural Research Commercialization Corporation bill, which I introduced in the 100th and again in the 101st Congress, can be a vehicle for rural revitalization. We already know that American farmers are the most productive in the world. American researchers do an excellent job of finding new, innovative uses for farm products. But so far, we have largely failed in commercializing those products, taking them from the laboratory to the market place.

The bill will set up four to nine regional centers around the country. The centers will develop a national network of experts on all aspects of new product commercialization. The centers will provide financial assistance and technical guidance to small companies seeking to commercialize new industrial products.

Mr. Chairman, today we will hear from a wide array of leaders from rural America, including the Governor from my state. Governor Sinner, I welcome you. I look forward to your testimony.

STATEMENT OF HON. KENT CONRAD, A U.S. SENTOR FROM NORTH DAKOTA

Senator CONRAD. I want to thank the Chairman for his leadership in this area. I want to thank him very much for holding this hearing, because I think it is going to make an important contribution to what we are doing.

But most of all I want to thank him for the ongoing leadership that he has demonstrated in this rural development area. We in our part of the country think this is one of the most important things Congress can embark on, and I am very appreciative of what you have done, and look forward to working with you.

I also want to thank my colleague from Montana, Senator Baucus, who has been an innovative leader in the area of rural development. I have joined him in a number of bills which he has authored, which I think are going to make a significant contribution to rural development.

And, Mr. Chairman, I want to brag a little about our Governor, because I think he is the foremost leader of agricultural policy among the Governors of the States. He is Chairman of the National Governors' Association Committee on Agriculture and Rural Development.

He was the leader in responding to the drought last year. It was Governor Sinner who marshaled the Governors of the country on the question of how this country was going to respond to drought, and I want to say that we deeply appreciate what he has done.

And once again he takes up the cudgel of leadership on the question of rural development. I have reviewed his statement. I agree with his proposals. I think they are the kind of benchmark that we can use as we move forward in these deliberations.

Let me just indicate, Mr. Chairman, that I intend next week to introduce a bill that will create a partnership fund, and that fund would provide the seed capital for small business development in rural areas, by establishing a revolving fund with a private sector match.

I am also going to be introducing legislation that would be part of what we hope will be a rural development package. This bill would mandate a survey of the various activities of the Federal Government, specifically in the areas of data base management and information processing. I would like to ask the Governor for his reaction.

Various endeavors in North Dakota, the Hal Rosenbluth example, and others where you have provided the leadership, have shown and demonstrated that information processing can be done anywhere today. Technology now allows us to be in New Town as well as New York.

It seems as though this is a major opportunity. The question arises, where are the data bases for FmHA maintained? For CCC? For ASCS? Why shouldn't that be done in distressed rural areas?

We certainly don't need another job in the Washington metroplex. Governor, what would be your reaction to a proposal along those lines?

Governor SINNER. Senator, thank you for the comment.

As you and I know, the data processing capability of the rural areas is astonishing. The results of the several companies that have moved to our State is mind-boggling. One of the leaders of one of those companies is going all over the United States saying to other companies in data processing, why don't you go to North Dakota? Or go to some of these rural States?

I don't know how unique we are, except that we do have unique people. We have the lowest crime rate by far in the United States, and we have the highest literacy. We graduate more high school graduates per capita than any other State in the Nation, and send a higher percentage of them to college than any other State in the Nation.

So there is that strange paradox, in that very rural State, of this incredible lust for education, and there may be something special there, but I am not that sure. I think the point you make that the ability of the Federal agencies, and private businesses, to make that one major thrust, is becoming more and more apparent by the success ratio of the companies that are there.

The REC's have a major data processing center there, and the people that are managing them are agog—literally agog—at the capabilities of the people.

The other thing I want to mention is that in the rural areas there is still an incredible ethic. Clark Equipment's international board met there a year or so ago, and we were having refreshments at the reception—and, at any rate, the president of the international board said to me—Clark has their major profit center there, Melroe Equipment—he said, "Governor, I don't know if you have any idea what you have here for a workforce."

He said, "We have taken over the world market." They own 55 percent of the world's skid steer market. They took it over in the toughest competitive time period in American history. He said, "What we can't believe here is that your people actually show up for work," and he said, "And they don't take the tools home at night when they go home."

And he said, "What's most amazing is that every week we get an idea—a new idea—on how to improve either the product or the process, off the line."

And so there is this incredible, untapped resource for the production sector—for all sectors, the information and service sectors—out in the rural areas, and yet we keep letting this incredible movement into the cities, which is causing monumental problems there, go on without really finding a serious way to address it.

And I think we need the two-pronged approach. I think we need the grants and loans, but I am more and more convinced that the tax incentives for major companies is something we really have to look squarely at, because I think it has a lot of merit.

Senator BAUCUS. Governor Sinner made the point about the workforce. I hear that point over and over and over again, from managers of firms in our part of the country. That is the same point that Governor Sinner made, the quality of the workforce. People are agog, managers are agog.

There is one company in Montana that makes Ping—golf bags. I am not a golfer, but apparently there is a Ping golf bag.

Governor **Sinner**. Several of us who play golf aren't golfers, either. [Laughter.]

Senator **Baucus**. A representative from this company told me, he was amazed. He said the quality of the people in Montana is just so outstanding that it is a pleasure to do business. Again, new ideas.

And I think that is my point, Mr. Chairman, that is not well recognized by a lot of businessmen around the country. Business is good when you have an excellent workforce. The quality of the workforce in so many parts of rural America is so superior to that of other parts of the country.

Senator **Conrad**. Mr. Chairman, if I might.

I would like to address the Hal Rosenbluth example. Mr. Rosenbluth has a major travel company, I think the third largest in the country.

Governor **Sinner**. In the world.

Senator **Conrad**. And this company has moved operations out into a small town in North Dakota—Linton, North Dakota. They did a calculation on their cost savings, and they found they were saving 40 percent by being located in North Dakota.

Now, the question that I think we ought to pursue is whether or not the Federal Government might not experience substantial cost savings by putting some of its data base management out in these rural areas that are distressed. The Governor is familiar with this operation.

It would seem to me that we have a opportunity here for both sides to benefit—the Federal Government in terms of cost savings, but also those rural areas which are so in need of jobs to support the infrastructure.

I would just ask the Governor if that is not the experience that he has had with this operation.

Governor **Sinner**. You are absolutely right. In addition to that, we have the facilities. In many cases we have facilities that have become vacated by the phenomenon of the manufacturing sector, particularly in agricultural manufacturing equipment, many of them with huge and significant office complexes, all available for a song if people could sing, and there are a few people in the Federal Government that can sing.

So you are absolutely right, that is a very good idea, that we should pursue.

Senator **Conrad**. Well, I appreciate that.

Thank you, Mr. Chairman.

Senator **Heflin**. Well, thank you. We appreciate it, Governor.

I have to go to another hearing shortly, and I have an Alabamian here, and I am going to ask Secretary Bergland if he will excuse me a little bit, and let me introduce my Alabamian, and listen to him, and then we will come back to the Honorable Bob Bergland, who is head of the NRECA.

I would like to ask Mr. Alford, if he will, to come forward, and let me have you sit here. Mr. Alford is the president of the National Association of Development Organizations, and executive director of the Alabama-Tombigbee Regional Council, of Camden, Alabama.

His being selected president is indicative that he is well respected by his peers, and that he is an individual who represents a section of the South in which he has a lot of black population, and there are real unemployment problems, in some sections as much as 50 percent unemployment in some of his counties.

Mr. Alford, if you will summarize in about 5 minutes, and we will submit your full prepared testimony for the record.

STATEMENT OF GEORGE ALFORD, PRESIDENT, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS, AND EXECUTIVE DIRECTOR, ALABAMA-TOMBIGBEE REGIONAL COUNCIL, CAMDEN, AL

Mr. **Alford**. Thank you, Mr. Chairman, and the subcommittee, for inviting me to testify.

I am George Alford, the director of the Alabama Tombigbee Regional Commission in Camden, Alabama, and president of the National Association of Development Organizations.

It will take me just one second to explain what NADO is. It is a national group of economic development district and regional agencies that have come together, and were formed in 1967 to help create jobs in small metropolitan and rural areas throughout the country.

Now, since I don't have that much time, I appreciate you letting me talk with you here, Judge.

I would like to address, not in opposition to the Governor but more on the delivery system, and how to get whatever services, whatever we can get in a bill for rural America to the right places; more to do with eligibility.

But the revolving loan fund type program, I think, would certainly help, and from personal experience, help create jobs, and maintain jobs in rural areas. My home county—I used some data in the testimony—we have an infant mortality rate of 34.2 deaths of every 1,000 babies, which is over three times the national average.

We have an unemployment rate today in my county that is 18 percent, approximately. We have 36 percent of the population below the poverty level. That is the type of area that I represent, and that I work for, and it also is my home.

I was listening to Senator Baucus, I agree with him that it is a urban-rural problem, and it is not necessarily, in my opinion, a regional problem, because Alabama is in the South, and the State looks good economically, but my part of the State does not, and that same progress has bypassed areas like my region all over the country.

So I don't believe it is necessarily regional so much as it is urban-rural.

Back to the revolving loan fund question, we have to get money—somebody has to get money at the local level. Agencies like mine operate at the local level, but we don't have fund raising capabilities, and in my opinion, it is going to be the Federal Government that has to, in some form, put capital into the local economy to create jobs, and to maintain jobs.

I would like to see some sliding scale on how much money, if you use revolving loan funds—I can't match a revolving loan fund. In my region the local governments are not capable of matching 50 percent or 100 percent of any program. They just do not have the revenue.

Some of the counties in my area are, for all practical purposes, in receivership. They can't pay bills, they are not going to match any program.

So, I would like to see it, that if there is a revolving loan fund in any package of bills, that some consideration is given as to the ability of the local governments to match the program.

Senator **Conrad**. Could I just make an observation, Judge, that you could have been part of history here this morning. [Laughter.]

We could have burned down this whole complex—moved it out to North Dakota, and part of it down to Alabama. [Laughter.]

Senator **Baucus**. We could split it.

Senator **Conrad**. Montana, yes.

Mr. **Alford**. I think it is important to take into consideration in anything we want to deliver, that something has to be taken into consideration of the ability of the local governments of the area to take that program.

I would like to see—this is not a negative comment about banks. I love banks, and we all do. [Laughter.]

But small rural banks are not always anxious to invest in the economic development at the local level, and a large number of local banks have been bought out over the past 10 or 15 years by holding companies, and they are not as interested in the local economy as they once were, and even the banks that are more farm-oriented in our area, of making loans on cattle crops and row crops, and they make car loans, but they just don't have the expertise, for the most part, to get into industrial development and putting together packaging loans for expansion of small industry.

I think, with a revolving loan fund type program with the bankers, local bankers, involved in the management, or on the board of your revolving loan fund, that they would get more interested, and learn a lot about local economic development, and possibly be able to jump in a year or two down the road and make some private—put more private investment into these small companies, which, to me, has been a major problem.

I would also like to see some money somewhere for technical assistance to these local governments, or local units, or regional governments, similar to the Farmers Home 111 Program that we have had before—I think it is still in existence—without funding.

But we had that funding at my regional agency for 2 or 3 years, and we prepared industrial profiles and economic profiles for my 10 counties, and I think got some industry in the region. It is very valid data that they can't afford to put together.

No matter if it is my agency or somebody else's agency doing it, these local small counties need that type of technical assistance to help them.

And the third area I would like to address is on the grants and loans program, on the infrastructure. I personally believe that it needs to cover more than water and sewer. You know, we have to have a rail, or roads. A big problem in our area is getting access roads to sites.

You may have an interstate—my region is 10,000 square miles, and we have about 30 miles of interstate, but you have to have access roads, and somebody has to come up again with that money, and I think this could be the proper place to have it, in this rural development bill, and I think it should be expanded more than just water and sewer, in some form.

Senator **Heflin**. Mr. Alford, I know this may be true in other places, but it is certainly true in Alabama. We have a great number of bridges which were built 50 or 60 years ago, and particularly in rural areas, over streams and rivers, and those bridges have been declared by the Highway Department to be unsafe for certain weight trucks.

One of the major difficulties that we foresee in the future is the prohibition of the use of those bridges by trucks that are hauling, for example, wood pulp in an area.

I think this talks about your infrastructure, and the relationship to highways and things.

In your area, I think you have had the experience with a number of instances in which just bridges——

Mr. **Alford**. Yes, we have——

Senator **Heflin** [continuing]. In rural areas have become sadly neglected.

Mr. **Alford**. Particularly—the timber industry—wood products industry is by far the largest industry in my region, and we've had major paper and pulp mills that could not expand because they could not get enough of the raw material of the product to that mill over certain bridges until the bridges were replaced, and therefore they have located in other areas.

We could have an additional 300, or 400, or 500 jobs at paper mills, or an expansion on a paper mill, but we couldn't get pulpwood to that mill, so therefore they invest somewhere else, and it happens on a regular basis in our region.

Senator **Heflin**. You have mentioned in your statement about your county, and the infant mortality. What do you foresee, relative to a program that could be conducted which could tend to reduce infant mortality, and, overall, improve rural health?

Mr. **Alford**. Well, I am going to change my hat. I am also chairman of a hospital board in Wilcox County, which is a 32-bed hospital—small, about as rural an area as I have given you the data. We have had to stop delivering babies—no obstetrician—because of malpractice insurance.

I am not trying to get into the health, a different area, but——

Senator **Heflin**. Well, it is a part of rural development, I think—rural health.

Senator **Baucus**. It certainly is.

Mr. **Alford**. I think so, too, and economic development. When we have industrial prospects, health care is a major concern, when they look at, especially, a rural county. The question of can you provide health services for their workers is on the minds of industrial prospects and we have to try to answer that, and just as much or more so in rural America, and try to build a case.

We need some way to get physicians—to attract physicians to rural areas. We can't deliver babies, we can't give prenatal care by private physicians without some incentive, and I don't know what the incentive is to get a doctor to locate in a county that you have seen the figures on—it is not that attractive.

You can make money, but you also—your working conditions are not what they are in other parts of the country, and we don't have the amenities that urban areas have to attract a doctor.

As you know, on some other problems, I have worked with the National Health Service School—we have used, I think, every method available to a rural area to attract physicians. We still can't change, it is rural, and that is not what a lot of young doctors want now, coming out of school.

We have had a lot—some doctors go to other areas on certain loan programs some States have. I would like to see something more of a national program that would encourage physicians to locate in rural areas.

Senator **Heflin**. What would you say is your number one rural problem in your area? If you had a choice of something that could be adequately provided, what would be your number one priority?

Mr. **Alford**. Job creation, some input of capital to create jobs, and then, I think, from that you would increase the tax base, you could provide better services, education, health care, other things—the quality of life would generally improve with job creation.

Senator **Heflin**. The many rural areas in our State had apparel cut-and-sew operations. Generally, it comes under the title of textile mills, but they are a long way from being textile mills, they are just cut-and-sew operations, where there might be 50 or 100 or 200 workers.

Because of problems pertaining to imports coming into this country, we have seen a good number of those close. Has that been true in your section of the State, where there has been closing of the cut-and-sew operations?

Mr. **Alford**. Yes, sir, we have lost quite a few. We do gain occasionally, gain some they have closed in another area of the State or in another State, and come in on a—because our local governments are forced to give away their assets, of a building that they have somehow ended up owning, that is empty or abandoned, in these small towns, and then somebody with a cut-and-sew contract will come in from another area and take advantage of the offer of a free building, or whatever, for a temporary time, and then close and it is left again.

It is just a vicious circle of these areas being forced to, instead of bargaining and getting the type of industry they need, they are having to give away their assets, and it continues to get the same type of industry.

I am not opposed to cut-and-sew operations—a good one has a lot of good jobs for our area, but I think our area should be allowed to compete on an equal basis with other areas to try to get that type industry.

But it has been a serious problem of closings. We have lost quite a few jobs—hundreds of jobs in the last 10 years in that apparel manufacturing, is what we call them, but we have lost quite a few.

Senator **Heflin**. Well, thank you, Mr. Alford. We appreciate it. Senator Conrad, do you have anything?

Senator **Conrad**. Well, Mr. Chairman, I think Mr. Alford has put his finger right on it. What we need are jobs, and that really is the bottom line. We have got to have jobs out there in order to support an infrastructure, in order to have some kind of economic future.

The question is, how do you get jobs out in rural America?

We have concluded that one of the best ways to get jobs in rural America is to look at what parts of this economy are growing rapidly, and the most rapidly growing parts of this national and world economy are in the information processing sector.

This industry is not dependent on how far you are from markets. Transportation concerns have been a deterrent for many businesses. In the information age, distance is irrelevant.

So now the question is, who has a good workforce? Who has a workforce with not much turnover, low absenteeism, people with a strong work ethic, people who are well-educated. That is going to be the test, and that is a test that rural areas can pass with flying colors.

The next question is, what do you do? How do you start this trend?

It seems to me one of the best ways is to get the Federal Government to look at its own operations. For the life of me, after living in this Washington metroplex for almost 3 years, I really don't know why you would want to add another single job in this area.

The air is foul, housing costs are through the roof, the crime is out of control, the drug use is surging, and you have all of the arteries leading into this city clogged every morning.

It seems to me it would make an awful lot of societal sense to get out of here. Let's get people out to where you can buy a family home for $65,000. You can do that in Alabama, I assume, and you can do that——

Senator **Heflin**. We could sell you one a little cheaper than that. [Laughter.]

Senator **Conrad**. One of your own, Judge. [Laughter.]

Well, you get my point.

Does this strike you as something that has prospects? For example, looking at the Defense Department and the Social Security Administration. Both have huge data bases that are maintained.

Couldn't you be doing that in Alabama just as well as the government can do it up here?

Mr. **Alford**. Yes, for the most part, and the problem, again, is that some of the areas are—something has to be done in education and whatever, to get them so they could even compete with other rural areas. There are levels of problems in rural America, too, and unfortunately we are at a lower level, probably, than some other areas, particularly in southwest Alabama.

And then that is something else that I am saying—you need some type of immediate influx of help that would raise—you know, you fund your school systems with taxes, and if your tax base is dwindling then your school systems are falling apart.

Senator **Conrad**. It is a vicious circle.

Mr. **Alford**. Right, so something has to stop—the only thing that is going to stop it is increased dollars—jobs and then taxes. You can't keep taxing that area. I mean, there is no more money that can come out of there; it is decreasing.

So, as someone said, I am just a country boy, I don't understand except I know you can't take more money out of rural Alabama and expect us to compete with anybody, for anything.

Senator **Conrad**. Let me just comment that when I came here, Judge Heflin told me he was just a country boy——

Mr. **Alford**. We like to use that——

Senator **Conrad**. Yes, I know you guys like to use that. But then I looked at all the money from this committee that was going down there. [Laughter.]

Because of this poor old country boy, who didn't have any idea of what was happening. [Laughter.]

Senator **Heflin**. Thank you.

One other thing. You represent the National Association of Development Organizations, where the regions assist in helping the Federal programs in providing technical assistance and other things. You do, I know from my observation, you and the other people do a good job.

Would you like to say something about that type of—any legislation that is involved with rural development, the structure that is now in place to help in regards to economic development and other things—would you like to comment on that?

Mr. **Alford**. We feel like we have been in existence for 20 or 25 years throughout the country, and are economic development professionals, and I would like to see us used in the process of—we deliver services every day to these small towns and communities, and I would like to see whatever comes out of any legislation, that we would be included as part of the delivery system.

I don't see creating new agencies, or more bureaucracy, when we have more than just regional planning commissions—other regional agencies that are in existence, that do this job on a daily basis, that our biggest hindrance is being able to keep a professional staff in some of these areas—we need some money to do that.

But that is the big thing—that we are there, with some other groups that can do this job, and we would like to continue to be able to do it, and not be pushed aside, and somebody else come in there and reinvent the wheel.

Senator **Heflin**. All right, thank you, Mr. Alford.

Mr. **Alford**. Thank you.

[The prepared statement of Mr. Alford follows:]

NADO

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Testimony of:

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On Behalf of the

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Before the

Subcommittee on Rural Development and Rural Electrification
of the Committee on Agriculture, Nutrition, and Forestry

in the

U.S. Senate

On

Rural Development

May 11, 1989

Washington, D.C.

STATEMENT BY GEORGE ALFORD, EXECUTIVE DIRECTOR OF THE ALABAMA-TOMBIGBEE REGIONAL COUNCIL AND PRESIDENT OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS (NADO), BEFORE THE SUBCOMMITTEE ON RURAL DEVELOPMENT AND RURAL ELECTRIFICATION, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY, UNITED STATES SENATE, MAY 11, 1989

Mr. Chairman, members of the Subcommittee on Rural Development and Rural Electrification, I am George Alford, Executive Director of the Alabama-Tombigbee Regional Council, located in Camden, Alabama, and President of the National Association of Development Organizations (NADO).

I would like to thank you, Mr. Chairman, for inviting me to represent NADO at these hearings today. Our members are grateful for your steadfast support for rural economic development programs. We are very supportive of the Agriculture Committee's work on rural development legislation. I am aware that they have worked extremely hard to develop meaningful legislation and I sincerely thank all of you for your efforts. I hope that my comments will provide a grassroots perspective as the Committee complete its work on the bill.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

The National Association of Development Organizations (NADO) was founded in 1967 to maintain and create jobs in small metropolitan and rural communities. NADO's members are substate, multi-county planning and development organizations. These public-purpose institutions are the development professionals who work with local governments and the private sector to promote business, community, and economic development. NADO is the national grassroots network dedicated to improving the economic opportunities and quality of life for all rural Americans.

Unfortunately, neither "development district" nor "regional council" is a household name as yet. While NADO is working hard to explain the regional concept here in Washington, I know that these organizations are an essential part of the institutional infrastructure at the local level in rural America. Development districts are multi-functional; they respond to the varying needs of different local communities. For example, in areas with a large elderly population, districts focus on providing aging services. Others have strong job training programs to improve the local workforce. Development districts and regional councils have been providing services and promoting economic development for more than 20 years. Districts involve the entire community -- the private sector, local governments, community leaders -- in the improvement of the local area.

WHAT IS RURAL AMERICA?

We often hear of a bi-coastal economy, with middle America missing the opportunities for economic growth. I disagree. The true dichotomy is the urban - rural split. Rural America has not kept up with the urban economic expansion. As the Wall Street Journal so accurately noted in an August 4, 1988 article:

> Metropolitan America is wallowing in nervous prosperity. Times are so good that people are afraid thay can't last. In the other America, the forgotten one beyond the patches of urban and suburban wealth, people would like the chance to be afraid about good times lasting.

Rural areas have suffered from massive reductions in federal investment. Since 1980, federal programs for rural economic and community development have been cut 74 percent.

WILCOX COUNTY AND THE SURROUNDING REGION

As tough as things are in many parts of rural America, the economic opportunities and the quality of life in the heart of the Black Belt are worse. My regional council works with ten counties in rural Alabama, and I can tell you first hand that this part of the nation has been left behind. The American dream of a good job with benefits and security and a satisfying quality of life remains unfulfilled for too many of our residents. Indeed, some have described the area that I work for as a third world nation within our own country's borders.

I was born and raised in Camden, the seat of Wilcox County (population: 14,755), and that is my home today. Wilcox County has the highest infant mortality rate in the United States -- 34.2 deaths of every thousand babies. The U.S. rate is 10.4 for every thousand. Of the housing in Wilcox County, 28 percent lack plumbing facilities. Unemployment is 17.7 percent. Our average per capita income is $7,283, which is 62 percent of the national average. Thirty-six percent of the county's residents live below the poverty line. Residents of the entire Alabama-Tombigbee region, totaling 223,000 people, suffer from similar troubles.

Public investment is the only means to encourage and retain the private investment necessary to bolster our region. Government programs must be a part of the solution to the economic problems in the Alabama-Tombigbee region and in most of rural America. Public investment serves to stimulate private sector growth, creating jobs and vitality in rural communities desperately seeking to improve their economic base.

REVOLVING LOAN FUND: A MUCH NEEDED INVESTMENT

In my capacity as President of NADO, I have had the opportunity to meet with economic development practitioners across the nation, from regions bustling with growth to areas faced with distress similar to my own region. From these discussions, revolving loan funds have emerged as one of the most effective means for small business development and expansion in rural areas. For many years I have attempted to start a revolving fund at Alabama-Tombigbee, however I have been unable to raise matching local funds.

While I strongly support the local match concept as a means of demonstrating local dedication, this requirement has effectively eliminated my region from participating in revolving loan fund programs. The counties in my region are struggling to provide basic services with a dwindling tax base. They have no funds to dedicate to economic development. The private sector has been unresponsive to my attempts to enlist funds for business development projects.

Most of the local banks are now owned by holding companies. No longer are they run by local boards of directors, but rather from urban centers hundreds of miles away. These controlling interests have no desire to participate in small business development in Camden or other parts of my region. Apparently, a revolving loan fund for small business ventures in rural areas is of minimal interest for these urban-oriented holding companies. Although we have the need for a loan fund in my ten county region, I have thus far been unable to secure the local match required for federal funds.

I suggest that a sliding scale match for distressed areas would enable regions such as mine to participate in locally-controlled revolving loan funds. Based upon a region's average per capita income, the local match would provide the flexibility necessary for our nation's poorest areas to help themselves.

Loan participation should allow sources other than banks to act as leverage. For example, if local banks have no intention of participating in local development plans, other sources of funding can leverage the federal funds.

As an economic development strategist, I am interested in creating jobs with broad effects, with health benefits for the family, and with products that contribute to the region and that will help develop the tax base for local governments so they can provide the basic necessities for residents.

Timber is the natural resource base of our economy. While we are working to diversify our local economy, our region is also very interested in any new research into new industrial products and processes using forestry crops. Senator Kent Conrad has introduced the Agriculture Research Commercialization Corporation bill to serve as a catalyst for this type of growth, and NADO supports this effort. Agriculture and resource related business start-ups require large investments in equipment. Thus any loan size limitation should provide enough flexibility for enterprises such as these to develop. Of course setting an upper limit on loan size does not prohibit communities from concentrating their efforts on smaller loans.

ACCOUNTABILITY AND THE NEED FOR A COORDINATED STRATEGY

The expenditure of public funds demands public accountability. The most logical means to achieve such accountability is to fund institutions with a majority of public officials as a governing body. This provides federal funding programs with public access to records as well as a means for the people to guide policy direction.

For long-term economic change, we need local government participation. Local government is the permanent fixture in these communities, and only through public entities can the entire community be guaranteed the opportunity to participate.

To achieve economic stability, communities must find their niche;

they must devise a development strategy to revitalize their local economy. With the loss of revenue sharing and reduction in other programs, small local governments depend more than ever on development district staff for planning and technical assistance. However, the federal funding for development districts has been drastically reduced over the last eight years. Despite the limited resources available, economic development organizations such as Alabama-Tombigbee Regional Council continue to join local governments, business and community leaders in a public-private partnership. Regional organizations provide the capability and professional expertise to develop an overall economic development startegy, to strengthen private sector development, and to improve local government services.

I strongly support a capacity building/strategic planning measure. Rural areas desperately need comprehensive development strategies to focus their revitalization efforts. We need to identify business opportunities and relate them to existing labor markets, transporation networks, essential public facilities and human resource development programs.

DEVELOPMENT-RELATED INFRASTRUCTURE

Rural America also needs investment in development-related infrastructure. Without adequate roads, bridges, utilities, and water and waste disposal systems, rural communities cannot hope to overcome their isolation. We must take into account that many of our rural areas need to develop and maintain the capability for growth even as they infuse new small business development into the community.

We urge the Committee, as well as others dedicated to the improvement of rural America, to provide funds for infrastructure investment. The Farmers Home Administration (FmHA) has a program currently on the books, the Business and Industry (B&I) Grant and Loan program, which has the authority to do development-related infrastructure development. We urge the Committee to update this program and provide funding for this program to give rural America the opportunity to propser.

We also are working to interest others such as the Committee Environment and Public Works and Small Business to pass legislation which will help rural areas strengthen and diversify their economies.

Mr. Chairman, thank you for holding these hearings. We have a tremendous opportunity before us to revitalize rural America, and I certainly appreciate the leadership of the members of the Agriculture Committee. The members of NADO look forward to working with the Committee to pass rural development legislation this year. I would be happy to answer any questions.

Senator **Heflin**. We are going to call the Honorable Bob Bergland, the executive vice president and general manager of the National Rural Electric Cooperative Association, a former Secretary of Agriculture, Member of Congress.

We are delighted to see you, and I think it is significant that you are testifying here today on the 53d anniversary of the establishment of rural electric cooperatives in America, which I think is one of the greatest programs that has ever happened to rural America.

STATEMENT OF BOB BERGLAND, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, WASHINGTON, DC

Mr. **Bergland**. Thank you very much, Mr. Chairman and Senator Conrad.

It was on May 11, 1936, that President Roosevelt signed into law the act which established a Federal presence in rural development. At that time there were 8 million families living beyond the reach of the electric power companies, and everybody knew, as long as these 8 million families lived without electric lights they would always live in poverty.

They tried every way to get the private sector, on its own, to undertake the task of electrifying these rural families, but it was too great a risk.

The Rural Electrification Program has been a huge success, and I think the major reason for the success is the public/private partnership. If it hadn't been for the passage of the Federal program, the rural electric program would never have started, because the communities were too poor.

On the other hand, if it hadn't been for local initiative, the program would have never had a private component. There may have been a federally funded, State-run electric company to do the job, but it would not have had the private component which the rural electric program has developed, namely privately owned, local, consumer-owned-and-run, electric power companies, dedicated to one thing: service to the community.

They are not in there to make money, they are in there to pay their bills, hire help, but to provide a service, or a range of services, as required to improve the community's general comfort level.

There is a lesson in this experiment, and namely that there has to be a local buy-in. We have done some studies of the programs of the 1960's, the so-called "Great Society" of President Lyndon Johnson, and President Jack Kennedy, and others.

Some of those programs succeeded, and some failed, and the ones that succeeded were where the local community bought in, were willing to invest at least their prestige, and money if they had it.

The ones that failed, where the locals did not see the worth, and when the Federal money dried up, the locals went away, and the program collapsed.

The rural electric program has withstood the test of time, at almost no cost to the U.S. Treasury. Some, of course, but the benefits have been enormous. The benefits to the U.S. Treasury, in terms of increased per capita income in rural places, and the taxes that that income produced for the U.S. Treasury, many, many hundreds of times offset the cost of the rural electric investment.

And so it is a huge success, from a taxpayer's standpoint, as well as public policy standpoint. And a lesson.

We think that the rural development bills which are before this committee, and other amendments which are being considered as far as we can tell—including yours, Mr. Chairman, which we have seen something about and think it is a wonderful idea—are built on the same basic premise: We need to have a public/private partnership, where the locals can do everything possible, but it is impossible to do it on their own.

This "Operation Bootstrap" stuff we went through in the 1950's is mostly bunk. This notion that a poor community can lift itself up out of poverty and become a blooming flower is the fiction of someone's imagination.

The real world argues a whole different point. The real world says, these poor communities without help are going to stay poor. The Chairman listed the problems in rural places, with outmigration, and unemployment, and it is all true.

The rural electric cooperatives have been in the development business for a long time, but in the last 10 years or so we have stepped up our efforts and expanded our horizons beyond electricity.

We are now providing television service to persons who live beyond the reach of cable TV, for home entertainment, but it is an important part of the amenities cycle.

We have been experimenting with this business of development and have learned some things the hard way. One, community and industrial development starts at home or it doesn't start at all.

If the home folks aren't willing, nothing is going to happen. It doesn't matter what the Governor says, or the President says, or anybody else says, if the home folks aren't willing, there will be no activity.

It must turn on existing industry, on timber products, on mining, on agriculture, on whatever is there—is usually the best place to start.

Our experience has been that it is best to focus on small business. Small business is the principal employer in rural places, and small businesses in rural places have problems.

We are impressed by what is being done in some States like Michigan and South Carolina, and Arkansas and elsewhere. They are attempting to establish a kind of a rural industrial extension service, to provide technical assistance to rural small business, particularly as we get into the sophisticated electronics manufacturing and servicing agenda.

These service organizations tend to be concentrated in large cities, and we think the agricultural extension service model, which has done extraordinarily well in transferring agricultural technology from university research stations out to the farms and ranches, can be replicated in rural development, by providing access to the universities' engineering and other resources that are simply not available to people who live beyond a stone's throw of the campus.

We believe that we need to expand the role of public support for water and sewer systems. A public subsidy for urban water and sewer systems is well documented—it is called a tax-free municipal bond, and the system works.

But you go out in the townships and it is a whole different matter. There about 11,000 rural water systems in the country, cooperatively or community owned, nonprofit, struggling for existence, no real help, hanging on by the skin of their teeth.

Now the new Federal drinking water standards are being enforced, and these local water companies simply aren't going to be able to cope with the ever increasing standards on the water quality.

There is nothing wrong with imposing tough standards on drinking water purity. The problem is, the small systems have no way of coping with these demands.

The same with the handling of waste water and waste material. Get out in the townships and there is no way of dealing with it, not like a city or town that has the benefit of a Federal subsidy through the existing programs.

Finally, we get to education. I think the biggest problem in rural places is education. The lack of it, the lack of opportunities, the dropout rate is awful.

My evidence is all anecdotal, but I have been to lots of places were parents and taxpayers say, why should we educate our kids beyond eighth grade, because those kids aren't going to work here anyhow—there are no jobs here, they're going to leave, why should we spend our tax money on them?

And so they don't encourage them to stay in school. The social and political and peer pressures in that community are to get out of there, just as soon as you are 15 and you get a driver's license and get a car, clear out, and go some place else. With no basic skills, no marketable talents developed.

They may have the talents inherently, but the school system hasn't helped them one speck. They not only can't read and write, they are functionally illiterate, and they have no skill in mechanical arts and basic training for the new kinds of technologies which are coming our way.

We think, though, Mr. Chairman, that the new age of electronics is going to help us substantially overcome some of these handicaps, in many areas including manufacturing.

You and your colleagues last year introduced a measure called "Star Schools," where we would use the phenomena of new electronics, sometimes satellites, sometimes fiber optics, to train kids in a rural school by remote control. It does work.

We have supported Oklahoma State University in this effort, we know it works, professional educators have tested the system, and there is no question but that the school with only two kids that may have an aptitude in calculus can be taught, by remote technologies.

We are convinced that the new age of electronics is going to overcome the cost of distance.

Senator Conrad, you have talked about examples in North Dakota where credit card companies have established their presence. In South Dakota, Citibank has established a major credit card collecting agency.

There isn't any doubt but with the new electronic devices that location is no longer material. We have talked to manufacturers who say that they may need to keep their central design and engineering facilities in Detroit, but the manufacturing can be any place, because it will be controlled by some remote electronic device.

It may be robotics, controlled by a computer operated in another third city. The age of electronics is going to overcome the cost of distance, and it is going to bring a whole new set of opportunities to rural places.

Our job is to help these communities to prepare for this coming age of electronics, that will create new jobs in rural places, but we need to train our people for it, we need help in finance to deal with some of these overwhelming problems that the community simply cannot cope with on its own.

They are willing to do everything they can, both in terms of in-kind contribution, local leadership, gambling with their own prestige, and risking as much money as they have. But it has to be leveraged into some larger fund, professionally managed, so that the necessary investments can be brought to these communities to make these plans come alive.

Mr. Chairman, that summarizes my statement. I would be pleased to help in any way I can.

Senator CONRAD [presiding]. Thank you very much, Bob. We very much appreciate your being here today and contributing the testimony.

There is no question, as I look across the fabric of our State, that rural electrics are part of that fabric. They provide tremendous local leadership, in a way of involving the local community.

What role do you see for rural electric cooperatives in this whole area of rural economic development? What specific role can you see them playing?

Mr. BERGLAND. Well, there are a thousand of these, in 46 States, each system has, on the average, about 10,000 customers, some larger, some smaller. They are in the computer age—every one has a computer—and they are billing by computer, and have direct mail contact with 11 million customers nationally.

We are good electric utility people. We are locally owned, and committed to that community. We are not going to pick up and pull out. We are not going to get out of there because we don't like the local tax policy, or whatever.

K-Mart can do that. They can close a place down and pull out, and leave the community hostage, and they do it. We know all about that stuff. Not this local co-op. They are there through thick and thin, and so the commitment is honest, it is deep, and it is for keeps.

They have some money—these are not poverty-stricken units, they are frugal, they are conservative, they have money they can use to invest prudently and wisely, and in joint-venturing with local banks, with other business enterprises, with the universities, with the schools, with the political community—and that is important, because you have to have the county commissioners, who control the zoning policy, have to be signed up, or the thing is sunk.

The school board that controls the curriculum and the direction of the local school system has to be signed up, or there will be no training.

So there is a need for a broad coalition of public/private interests, of which electric cooperatives can be a very key part.

And finally, Mr. Chairman, we are willing.

Senator CONRAD. All right. That, I think, pretty well summarizes the strengths of involving those local co-ops.

One of the considerations that we have heard is, look, if you have local and community involvement, that is basic. You have to have that.

But the question arises, when you have local involvement, how do you assure that the State's strategic economic development plan meshes with what the local community is pursuing?

We heard a lot of discussion about this last year, when a rural economic development bill bogged down here, a lot of criticism from Governors that their economic development plan and their priorities, were not being paid sufficient attention to, in terms of that legislation.

How do you prevent that criticism from being raised?

Mr. BERGLAND. Well, I think the program has to provide enough flexibility so that a Michigan can do its own thing—and they have done some very fascinating new and innovative things in that State—or South Carolina can do its own thing, or Governor Sinner, who has a whole different set of problems, can do what makes sense in that State.

The tendency is to sort of write a national program, and say this is the way it is going to be. You have to have flexibility to adapt to these local circumstances.

The mistake that is often made is to assume that each of these communities is like the next, and they are not. And so flexibility has to be a vital part of it. Clearly, they would need to work with the Governors and the State agencies in this matter.

I don't exactly know how you would marry the State agencies with local development structures. I assume that the Governors have found a way to take care of that political problem, but it must be done.

Senator CONRAD. Well, haven't you done it within the rural electric movement itself? You have a statewide office that deals with the regional co-ops. There is a pattern there that maybe needs to be looked at carefully when we are crafting this legislation.

That is, you have a series of regional distribution co-ops that belong, at least in my State, to a statewide organization, and they have a means of determining a policy that has coordination to it.

Would that model strike you as one that might be useful as we work with this?

Mr. BERGLAND. I think so, but it has some political problems. The model you cite works because it is clearly bottoms-up control. The local systems run that thing. They run that statewide organization, and let there be no mistake about it.

Once in a while we have a statewide manager who thinks that he or she is in charge, and it takes a little while, but they get straightened out. It is local control.

The advantage of the statewide is, they can pool their resources and do things together more efficiently than they can do it singly. And so, on a statewide basis, they have their own economic development plan, and they have other things they can do together that they cannot do individually.

And that is the basic test.

Again, we realize that each individual rural electric cooperative is going to service that community. This all for one and one for all business is good theory, but it doesn't work. They are going to take care of that community—that is their responsibility.

They will help others, as long as the cost isn't too heavy. But they are not going to risk their community to help some place 2,000 miles away. It just doesn't work that way.

So, we know we have to have local control, and I think that is true in any development strategy. You have to depend primarily on these local folks, and I think State agency planning has to respect that—the need for local citizens to control their own destiny.

If the State plan doesn't allow for that, the State plan is going to be sunk, too.

Senator **Conrad**. All right. I think that is a terribly important point that we can communicate as we go through this process.

I have been involved in a whole series of rural development initiatives in our State, and if there is anything that is clear, it's that if the local people have not bought into it, if they aren't central to its leadership, none of this is going to work.

I think you made that point in your testimony.

As a former Secretary of Agriculture, let me ask you a question on a little different point. We have gone through, in our State, a situation in which a man running a big travel company in Philadelphia saw the drought affecting the country.

He and his wife were talking one night after seeing night after night of tough drought news and said, we have to do something to help these people.

So he called around and he found out North Dakota was the hardest hit State, called North Dakota, found out south-central North Dakota was the hardest hit part of the State, picked out a town, and he put 40 temporary jobs in there.

These were data entry jobs for his travel operation. He did it on a temporary basis, but it worked so well he decided to make it permanent. He also decided to start expanding the operation, make a reservations center out of it, because now it doesn't matter—you call a 1-800 number—whether it is answered in New York City or Los Angeles, or North Dakota. It doesn't make a difference.

This is working extremely well. He found that he saves tremendously on the costs and has a very dedicated workforce.

My question to you is, are there data base, data processing, or service operations that might be easily facilitated in the rural parts of the country as wherever they are done now?

Mr. **Bergland**. I think so, and I am reserving on this because I am not really up on exactly where the Department is at. Used to be, the accounting and the data collection was done by hand, and it was all done down here.

Now it is all computerized, and I know it is widely disbursed. I know they have major data collection centers outside of Washington, and I also know that they have the local data collection centers—the local ASCS office has a terminal, and it is tied into the network. That is true of the Farmers Home and the other agencies.

Where that mainframe computer is located, I frankly don't know. It is not here, it is not in Washington, D.C. They are creating a decentralized data system. I am sure there is a lot more that could be done in this regard.

I completely agree with what you were commenting on earlier, about the need to bring more of these jobs outside of Washington, D.C. That makes sense from any point of view, and I think the age of electronics is going to allow this.

I think not only will it allow Government to decentralize its facilities, but we are going to see private industry go into these areas. Before they couldn't, because they didn't have access. We had antiquated telephone service, we had mechanical switching systems. It was just impossible.

Now, with the new electronic systems available—technically available, not yet in place—I believe we are going to see all this change.

Senator CONRAD. We have asked that a USDA data processing survey to be conducted, as part of this legislation.

One thing we know is, for example, the Internal Revenue Service has major processing facilities, and all tend to be in major urban areas; there are lots of problems with them. One of the things we have learned is, smaller, decentralized units operate more efficiently.

We don't know the reason why, but we can see it in schools, we can see it in other operations. For some reason, once you reach a certain high number of folks, no one feels terribly responsible about what is occurring.

That would seem to offer an opportunity for further decentralization of what the Federal Government is doing.

Mr. BERGLAND. Yes, I completely agree. There is this old notion that bigger is automatically better. We have found out that is absolutely not true. That is somebody's pipe dream.

There is a scale size than lends, or creates the optimum in scale, big enough to take advantage of the economies, but not so big as to become sod-bound. And that is what has happened to much of the industry in the world these days—it is sod-bound. There is no room for a new idea.

The smaller the unit, the more resourceful it will be.

Senator CONRAD. We have found in schools, for example, that for some reason, once you get past about 800 students, there is a dramatic change in how students view themselves as part of that school.

When you have relatively small schools, the students feel as though they are participants. When you get to these very large schools—2,000, 4,000 students—all of a sudden they almost feel like they are observers of what is going on, rather than active participants, and it gives somebody a whole different view of themselves.

If they are in a relatively small school, their own sense of being able to have an effect is much greater. They participate in the school play, they participate in the basketball team, they are in the band. Participation is very important to developing a sense of efficacy in kids—that they can have an impact.

I sense that same thing probably occurs in organizations.

Well, we very much appreciate your testimony, and your active role in helping us approach this problem of rural development.

I have just been told moments ago that the budget conference committee has authorized $300 million for budget authority for rural development.

Mr. **Bergland**. Thank you, sir. Thanks to you for all your help.

Senator **Conrad**. Very good. Thank you.

[The prepared statement of Mr. Bergland and Location Assistance Directory follow:]

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Statement

of

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National Rural Electric Cooperative Association

before the

Subcommittee on Rural Development

and Rural Electrification

Committee on Agriculture

United States Senate

May 11, 1989

Mr. Chairman and distinguished members of the Committee:

I appreciate this opportunity to appear before you today to discuss the important issues relating to the condition of our rural economy, and the actions which must be taken to restore vitality to the countryside. Having had some experience in government, I have some thoughts on the appropriate and effective roles for the federal government in working in partnerships with others to promote rural economic development.

I commend this Subcommittee and I appreciate the active, concerned, leadership role you are taking on this important issue. We offer you our full support.

NRECA is the national service organization for the 1,000 rural electric systems which provide power to 25 million people in 2,600 counties in 46 states. Each rural electric cooperative is owned by its consumers who elect a board of directors to set policy and guide the cooperative in its service to the community. By their very nature, rural electric systems have both deep roots and a vested interest in ensuring that their communities grow and prosper.

The rural electric program is itself a prime example of a successful economic development effort. It is based on a strong partnership between an effective federal government agency, the Rural Electrification Administration (REA), and local grass-roots organizations — the rural electric cooperatives. Through this partnership, our nation was able to successfully bring electric service to rural America. This was accomplished despite the fact that established utilities, and many knowledgable individuals were convinced that it was a foolish undertaking which could not work. Today, the rural electric cooperatives comprise a powerful network which covers much of the land mass of the United States. These systems are deeply involved in a wide variety of economic development activities beyond the provision of electric service.

We commend this Committee for its work in formulating new rural development legislation based on public/private partnerships. Based on our first hand experience during the past fifty years, we have seen clearly that public/private partnerships can and do work effectively in rural communities. However, in these partnerships the public and private roles must be carefully structured. The REA model offers a useful example of an effective way in which these roles can be structured. The REA model is one in which the federal government does what it can do best in the development field — provide technical assistance, develop standards, provide financial and other support, and provide leadership and overall program direction. Local communities through grass-roots organizations — rural electric cooperatives, accountable through an annual election process to their member-owners — accept the responsibility of making the program work on the local level with local community support. In our experience this element of a local community group being required to "buy into" the process through its own investment and commitment is essential for any successful rural development effort.

The work of this Committee is particularly important in view of the economic events in rural areas during the past several years. Unfortunately, at a time when out national economy has been experiencing a major and sustained expansion, many rural communities have experienced rapid declines. The public record is full of the work of experts who have documented these declines. The data which have been compiled show that rural areas are experiencing: (1) a net outmigration of substantially more than 500,000 people each year; (2) job growth at less than a third the urban rate; (3) high levels of unemployment and underemployment; (4) higher poverty rates, lower incomes, and a growing gap when compared with urban areas in both of these measures; and (5) a heavy loss of college-educated people and significantly lower average levels of education than urban areas.

Rural communities constitute a tremendous national treasure. Rural communities must not be left behind as our economy continues its growth and transition. Given a choice, people prefer to live in open countryside and small communities. Many of the values which have made our country great and continue to sustain our national spirit — family closeness, honesty, commitment and a solid work ethic — are strongest in rural communities. We believe that it is in the best interest of our entire nation for rural areas to be economically strong and to offer attractive employment opportunities, and essential services, including good schools, access to health care, reasonable housing, and other elements which are needed to attract and retain people. If these elements are not present, then the rural outmigration trends of the 1980's are likely to continue. And, Mr. Chairman, this increased concentration of people in urban centers is good for neither the cities nor the rural and small communities.

What can be done to address these problems, and what is the appropriate role of the federal government in doing this? Before discussing NRECA's specific recommendations, let me explain a few of the basic principles which we have developed as a result of analyzing the economic development efforts of rural electric cooperatives over the last fifty years, and observing and analyzing other development programs.

1. The federal government can play an important role in helping to revitalize the rural economy. However, such a role must be carefully thought through and executed. In particular, it is our experience that local development problems cannot be solved by large Federal spending programs which lack local support. Successful efforts must have a strong element of local commitment and initiative. The Federal role should be limited to doing what only the federal government can do, or what it does best — making use of its regulatory authorities, developing standards, providing technical assistance, and, where needed, financing. This Federal role can be used most effectively when employed as part of a partnership with local grass-roots organizations which embody the commitment of the local community to the project for which assistance is provided, and which represent, and are accountable to the local community. In the absence of local leadership, commitment, and input, Federal resources are more likely to be wasted.

2. With limited resources and continued deficit problems, opportunities should be sought to use federal resources carefully and in ways which leverage their effectiveness. Use of existing networks, such as rural electric cooperatives and others, and the requirement that private capital be used along with federal funds should be considered.

3. Generally the most beneficial and long-lasting economic development results are achieved by starting out small. It is often more realistic for a local community or cooperative to undertake a project that results in a few new jobs rather than expend energy and resources pursuing a large employer. Small successes can snowball into more small successes which build local vitality.

4. A "can do" attitude is essential to rural development. Those who are easily overwhelmed and have a pessimistic outlook are bound to reap more of the same. Those who succeed are people who can take that first important step and continue to move forward even after repeated failure. Development is a slow process which requires patience, perseverance and an understanding that positive results normally take time.

Mr. Chairman let me address some of the specific recommendations of the NRECA membership for new rural development legislation.

First, An Economic Development Unit at REA: We believe that there is a strong need for REA to provide leadership and technical assistance in the economic development area. A major step could be taken in this direction by the establishment of a small economic development technical assistance group at REA to provide hands-on advice and assistance to rural electric and telephone systems on specific development projects. This initiative could be accomplished within present REA budget levels. It would be a very effective use of a small amount of federal funds because the leadership, focus, and technical support provided by this unit would result in rural electric and telephone systems increasing both the level and effectiveness of their commitment of human and other resources to economic development efforts within their communities.

REA leadership and technical assistance will do more to increase the involvement and improve the effectiveness of rural electric and telephone cooperatives in the economic development area than any other single force because of: (1) REA's position as the major lender to rural electric and telephone systems; and (2) the historic relationship which has been forged between REA and the rural electric systems — most of which are in existence solely because of the REA program and operate utility systems based on REA accounting, management, financial and engineering standards. NRECA supports legislation which would require REA to use this unique position to encourage and assist rural electric and telephone systems to increase their involvement and effectiveness in local development efforts and alliances.

I thank and commend you Senator Heflin and Senator McConnell for your strong leadership last year in promoting this concept. Because of your leadership 41 members of the Senate and 75 congressmen joined in sending a letter to then Secretary Lyng proposing the establishment of such a technical assistance unit at REA. Despite this support and the clear logic of this proposal it has not yet been implemented. I strongly request that any rural development legislation passed by your Committee should mandate such a unit and make it a permanent part of the Rural Electrification Act.

Again, I thank the members of this Committee for their support for this small, but important initiative

Second, Rural Distance Learning: Too many rural schools do not have adequate resources to hire teachers to provide instruction in many of the areas of math, science, and languages. This puts rural students at a distinct and serious disadvantage. One way of addressing this problem is by using satellite and other telecommunications technology to bring two-way interactive instructional programming to rural schools. A number of rural electric cooperatives have worked with local school districts to do this, and have donated satellite and other equipment to these schools.

Last year NRECA worked with the Senate Agriculture Committee to develop a rural "star schools" program tailored to the needs of rural communities. Under this proposal, which was developed at the request of the Senate Agriculture Committee, funding would be provided to partnerships which would include: (a) local rural electric and telephone systems, telecommunications, or other local entities; (b) the National Rural Telecommunications Cooperative; (c) educational institutions; and (d) other organizations which could assist in increasing the level of participation in this program by rural schools, vocational and adult learning centers, health care or other organizations which could benefit from these programs.

In considering rural development legislation last summer this rural distance learning proposal enjoyed strong and bipartisan support on the Senate Agriculture Committee. We believe that it is a very effective method of using the existing network of rural electric, telephone and other systems in local partnerships to use telecommunications technologies to bring courses to rural students that would otherwise simply not be available to them.

If used effectively, telecommunications technologies offer great hope for rural communities. These technologies eliminate a great deal of the disadvantage of distance — the major inherent characteristic of rural life. Telecommunications have been called the electronic highways of the future. There is no doubt that the workplace and educational institution of the future will rely more and more on the ability to send and receive information instantaneously. Rural areas cannot afford to be cut off from these electronic highways. We believe that if ever there was a good starting place to ensure that the electronic highway reaches rural America, it is the Rural Distance Learning proposal that, last year was favorably considered by your Committee. We urge that this proposal be expeditiously approved and implemented. It is a program that can truly make a difference in the lives and future prospects of rural children and in their ability to contribute to our nation's economy and the well-being of rural communities.

Third, Rural Business Incubation: The rural economy is disproportionately concentrated in certain industries that are not expected to result in major increases in employment and income growth. These industries — mainly agriculture, resource extraction and low skill manufacturing — have all suffered major downturns during the 1980s. If we are to succeed in promoting rural employment and income growth and in softening the impact of future economic downturns, several things must occur: (a) the rural economy must be diversified with particular emphasis on those sectors that are driving the growth of our nation; (b) the rate of rural business formation, which is far below the urban rate, must be increased; (c) efforts must be made to bring technology, business acumen and financing to rural businesses to improve their ability to compete in an international economy.

We believe that an important way to address these concerns is through the development of a rural business incubation program that would provide focussed assistance to new and emerging businesses during their early stages. Such incubators would provide affordable rent, shared services, and access to management advice, accounting, legal and other services to promote the growth of rural businesses during an "incubation" period. This program, in which rural electric cooperatives would contribute expertise and participate in funding, would provide a practical way of linking rural businesses with technology and business acumen. In many ways this would constitute a hands-on technology extension service — a "missing link" which is presently not available in rural areas.

A well developed rural incubation program would be a major step in ensuring that rural businesses gain access to available technologies and business and marketing techniques, in order to improve their efficiency and ability to contribute more fully to international competitiveness of our nation's economy. A business incubation program can be a major step in ensuring that rural economies are plugged into the mainstream of U.S. economic growth.

Forth, Access to Capital: There is significant disagreement among experts on the nature and extent of the problems which rural communities are experiencing in obtaining access to capital. However, there is no disagreement that, during the 1980s, the rate of business formation in rural communities has been far far less than in urban areas. Recent studies, as well as certain anecdotal information, including reports from our members, indicate that the inability of rural businesses to gain access to needed credit is a prime factor in this low rate of new business formation.

NRECA believes that cost effective methods should be developed to encourage private banks and other financial institutions to increase the amount of funds they are willing to make available to rural businesses, especially small businesses.

In any such program the role of the federal government should be limited to providing incentives, including funding through revolving loan funds or other mechanisms, that can increase the flow of private capital to rural businesses. We believe that partnerships developed to promote this goal must include the requirement that local entities match or exceed any amounts made available through a federal program. The local community should accept a measure of risk and be required to make a financial investment.

One specific proposal that the NRECA membership has made is that REA's present "Section 12" program (in which borrowers are permitted to defer loan payments as an incentive to make loans to consumers for energy conservation) be modified to include loans for community and economic development projects. Under this proposal the amount of such deferred payments could not exceed 50% of the total project. In order to avoid a budget outlay problem borrowers would be required to make "cushion of credit" deposits at the time of loan payment deferral. The end result would be a small program that would provide an encouragement to borrowers to make investments in community and economic development projects by permitting the deferment of a loan payment for a period of 5-10 years without the accumulation of interest. We believe that this would be a small but sound program in which, at a small cost resulting from the loss of a portion of interest income, the federal government could provide a practical method of promoting private sector investment in economic development. This program would have the additional benefit that, because it is a modification of an existing program, rural electric systems are already familiar with it, and it could be implemented quickly.

Fifth, Water and Waste Disposal Financing: Rural electric systems in a number of states, including three of those represented on this sub-Committee — Alabama, Kentucky and Arkansas — have been very actively involved in the water and waste disposal area for many years. In some cases these rural electric systems actually operate water and waste disposal systems; in others, rural electric systems have been instrumental in helping organize and develop these systems.

Generally, water and waste disposal comes to the attention of a rural electric system when it becomes a serious problem. This occurs in several cases, including cases in which: (a) development, including new industry location, in an area is blocked because of the lack of water and waste disposal, thereby resulting in the loss of job growth in a community facing serious economic problems; (b) a local community or water system experiences problems involving compliance with certain environmental requirements; and (c) an area which has been served by a rural electric system for 50 or more years is annexed by a municipal system which then provides water and waste service to the area, and at the same times takes over the electric service in the area. In all of these cases both the rural electric cooperative and its rural consumers suffer because of the lack of water and waste facilities.

We propose that REA be authorized to provide a small amount of funding to rural electric systems to provide water and waste service in the types of cases outlined above, and in which financing from other agencies is not available. We believe that rural electric cooperatives, which have a great deal of experience in operating utility systems, would provide an effective service to their communities in the water and waste disposal area, which is quickly becoming more important, not only from an economic development, but also from an environmental and health perspective.

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you today. Again let me emphasize my appreciation and support for the leadership you have shown in addressing this important matter. We stand ready to help you in any way as you continue to consider the ways in which our rural communities can be assisted to grow and regain their vitality.

(Attached material follows:)

Location Assistance Directory

**1988–1989 Nationwide Network of
Economic Development Executives
in Investor-Owned
U.S. Electric Utility Companies**

"A utility company is only as strong as the economy of the area it serves."

PLANN DIRECTORY: 1988 - 1989

What PLANN will do for you:
At no cost or obligation, and in complete confidence, the economic developers of the investor-owned electric companies listed in this directory will supply you with such plant or site location information as you may need for the areas listed under their names. PLANN service is efficient, fast and free of charge. It is available to any business, firm, consultant, industrial realtor, railroad, or any other organization engaged in locating a job producing facility.

How to use PLANN:
Once you determine which areas of the nation are of interest, contact the appropriate investor-owned electric company economic development representative(s) listed in this directory. He or she will give you the professional confidential assistance you desire.

Who developed PLANN and why?
PLANN was conceived and developed by the members of the Economic Development Committee of Edison Electric Institute, the association of the nation's investor-owned electric utility companies. The economic development departments of the companies listed are committed to increasing the prosperity and employment of the areas they serve. Competent specialists are available in most instances to assist you with your plant or site location problems.

Economic Development Services Available from Investor-Owned Electric Utilities

I. ECONOMIC DEVELOPMENT

As a continuing contribution to the development of the territories they serve, the nation's investor-owned electric utilities offer the confidential services of their Economic Development departments to any business or industry seeking a new location. These services are also offered, at no obligation, to existing businesses seeking to expand or relocate within the utility's service area.

Generally, the utility's experienced economic development representative serves as a catalyst, bringing to the prospective plant/site user all of the available locations within the utility's service area, presenting data as requested or required by the prospect, including:

1) Information and statistics relating to area markets, population, available labor force, taxes, worker training, education, climate, transportation, housing, hospitals, churches, recreational facilities, zoning, community statistics, governmental regulations affecting industry and employees, sources and availability of raw and semi-finished materials and natural resources.

2) Detailed information concerning the size, location, cost, regulations, agent, transportation, condition and other data for all available business space or industrial plant sites.

II. COMMUNITY DEVELOPMENT

Electric utility representatives will assist local civic and business groups in the development and implementation of plans and projects for area betterment.

These activities may include:
1) improving business climate, 2) job development, 3) downtown revitalization, 4) education and recreational facilities, 5) planning, 6) zoning, 7) inner-city relations, 8) transportation and other services.

III. FOREIGN TRADE

To further enhance the economy of the area served by the electric utility and promote business for its business and industrial customers, most companies offer assistance to secure overseas business for any firm which is interested.

Electric utilities are also prepared to assist foreign investors in finding business sites and investment opportunities in their service areas.

Electric Power Siting Considerations

One of the major criteria which may impact upon the final location decision is electric power. In order to determine the costs and availability of electric service, it is important to involve the Economic Development Representative of the utility serving the site under consideration.

Some of the important questions about electric service:

1. Identify the company serving the site(s) under consideration.
2. Determine the basic specifications of power desired, such as: peak kilowatt demand, anticipated kilowatt hours per month, power factor and load factor. The utility representative(s) will need this information to provide you with an estimate of your monthly bill.
3. Determine voltages available. Inquire whether transformers are furnished by the utility or by the customer.
4. Are different levels of services available? Pursue the possibility of alternative rate schedules if appropriate.
5. Will service be installed above or below the ground? Who pays for underground?
6. Last, but not least, be prepared to discuss cost of service for your particular project.

ALABAMA

■ ALABAMA POWER CO.
(Subsidiary of The Southern Co.)
Charlton B. McArthur, Vice President, Economic Development
600 N. 18th St., P.O. Box 2641, Birmingham, AL 35291-0015
205-250-2534

Serves major portion of Alabama with exception of several northern counties.

ALASKA

■ ALASKA ELECTRIC LIGHT & POWER CO.
David G. Stone, Vice President, Customer Service Engineer
889 South Franklin St., Juneau, AK 99801
907-586-2222

City and Borough of Juneau.

ARIZONA

■ ARIZONA PUBLIC SERVICE CO.
Paul L. Wiggs, Manager, Economic Development
P.O. Box 53999, Phoenix, AZ 85072-3999
602-250-3060

Serves 228 communities in 12 of Arizona's 15 counties.

■ TUCSON ELECTRIC POWER CO.
Joseph B. Wilcox, Vice President
220 West 6th St., P.O. Box 711, Tucson, AZ 85702
602-622-6661

Serves Tucson and the surrounding area.

ARKANSAS

■ ARKANSAS POWER & LIGHT CO.
(Subsidiary of Middle South Utilities, Inc.)
Mike Russ, General Manager, Business Development
P.O. Box 551, Little Rock, AR 72203
501-377-4445

Alternate source for information:
J. Hugh Nichols, Director, Regional Economic Development
Middle South Utilities System
P.O. Box 61000, New Orleans, LA 70161
504-569-4720

Serves entire State of Arkansas with the exception of the western portion.

■ THE EMPIRE DISTRICT ELECTRIC CO.
H. Wayne Hackney, Director, Technical & Industrial Services
602 Joplin St., Joplin, MO 64801
417-623-4700 Ext. 314

Serves part of southwestern Missouri, southeastern Kansas, northeastern Oklahoma, and northwestern Arkansas.

■ OKLAHOMA GAS & ELECTRIC CO.
Jack E. Rector, Manager, Economic Development
P.O. Box 321, Oklahoma City, OK 73101
405-272-3460

Serves west central Arkansas and over half of the State of Oklahoma.

■ SOUTHWESTERN ELECTRIC POWER CO.
(Subsidiary of Central & South West Corp.)
Neal Baremore, Manager, Economic Development
P.O. Box 21106, Shreveport, LA 71156
318-222-2141

Alternate source for information:
Jane Kilby, Director, Business Development
Central & South West Services, Inc.
P.O. Box 660164, Dallas, TX 75266-0164
214-754-1000

Serves northeastern Texas, northwestern Louisiana, and western Arkansas.

CALIFORNIA

■ PACIFIC GAS & ELECTRIC CO.
Thomas R. O'Connor, Manager, Marketing
77 Beale St., San Francisco, CA 94106
415-973-4133

Serves the major portion of northern and central California.

■ PACIFIC POWER & LIGHT CO.
Scott R. Hannigan, Director, Economic Development
920 S.W. Sixth Ave., 460 PFFC, Portland, OR 97204
503-243-3152

Serves parts of six states as follows:
California—northern
Idaho—northern
Montana—northwestern
Oregon—western, northern central, and southern
Washington—south central and southeastern
Wyoming—north central, central and southern

■ SAN DIEGO GAS & ELECTRIC CO.
Jennifer L. Mitchell, Director, Economic Development
P.O. Box 1831, San Diego, CA 92112
619-696-4700

Serves city of San Diego, all of San Diego County, and the southwestern area of Orange County.

■ SIERRA PACIFIC POWER CO.
L. Keith Porter, Manager, Market Research
P.O. Box 10100, Reno, NV 89520
702-689-4858

Serves western Nevada and eastern California, including Reno, Winnemucca, Elko, Carson City and Sparks, Nevada, and the Lake Tahoe Basin.

CALIFORNIA, COLORADO, CONNECTICUT, DELAWARE, D.C., FLORIDA

■ SOUTHERN CALIFORNIA EDISON CO.
Charles B. McCarthy, Jr., Vice President, Customer Services
P.O. Box 800, Room 392, Rosemead, CA 91770
818-302-2974

Alternate source of information:
Thomas F. Bryson, Manager, Customer Services
P.O. Box 800, Room 392, Rosemead, CA 91770
818-302-3725

Serves all or part of 14 central and southern California counties.

COLORADO

■ CENTEL ELECTRIC—COLORADO
Ted Trani, Regulatory/Customer Services Manager
P.O. Box 75, Pueblo, CO 81002-0075
303-545-0360 Ext. 274

Serves 39 communities in Teller, El Paso, Pueblo, Crowley, Otero, Custer and Fremont counties in Colorado.

■ PUBLIC SERVICE CO. OF COLORADO
Neil H. Allen, Manager, Economic Development
P.O. Box 840, Denver, CO 80201-0840
303-571-7734

Alternate source of information:
Donald M. Johnson, Economic Development Coordinator
P.O. Box 840, Denver, CO 80201-0840
303-571-7920

Supplies approximately two thirds of the total electric and natural gas requirements in Colorado, serving 185 cities and towns with electricity and 131 with natural gas.

CONNECTICUT

■ BOZRAH LIGHT & POWER CO.
Edward L. Rudd, Jr., Vice President
Gilman, CT 06336
203-889-7388

Serves town of Bozrah and part of Lebanon and Montville.

■ NORTHEAST UTILITIES SERVICE CO.
(CONNECTICUT LIGHT & POWER CO.)
H. Donald Burbank, Director, Marketing Services
P.O. Box 270, Hartford, CT 06141
203-721-2701

Serves over 70% of the State of Connecticut including the cities of Bristol, Danbury, Meriden, New Britain, Norwalk, Waterbury and Willimantic.

■ THE UNITED ILLUMINATING CO.
Charles W. Cook, Senior Vice President, Corporate Development
80 Temple St., New Haven, CT 06506
203-787-7302

Serves an area of 335 square miles in the southwestern part of the State of Connecticut, including the principal cities of Bridgeport and New Haven.

DELAWARE

■ DELMARVA POWER & LIGHT CO.
Paul J. Hockersmith, Manager, Economic Development
800 King St., Box 231, Wilmington, DE 19899
302-429-3160

Serves the State of Delaware.

DISTRICT OF COLUMBIA

■ POTOMAC ELECTRIC POWER CO.
John H. Stevenson, Manager, Sales Department
1900 Pennsylvania Ave., N.W., Washington, D.C. 20068
202-872-2469

Serves District of Columbia and most of Prince Georges and Montgomery Counties in Maryland.

FLORIDA

■ FLORIDA POWER & LIGHT CO.
William M. Klein, Vice President, Economic Development
P.O. Box 029100, Miami, FL 33102
305-552-4228

Serves the east coast, south Florida, and southern Gulf Coast areas.

■ FLORIDA POWER CORP.
Edward L. Schons, Manager, Economic Development
P.O. Box 14042, St. Petersburg, FL 33733
813-866-4354

Serves the central and west coast of Florida from Tampa Bay northward to Georgia Line and westward into the Florida Panhandle.

■ GULF POWER CO.
(Subsidiary of The Southern Co.)
Adrian B. Hombroek, Manager, Economic Development
P. O. Box 1151, Pensacola, FL 32520
904-444-6371

Serves northwest Florida.

■ TAMPA ELECTRIC CO.
R. Clayton Dickinson, Jr., Vice President, Economic Development
P.O. Box 111, Tampa, FL 33601
813-228-4312

Serves city of Tampa and immediate contiguous area.

GEORGIA

■ GEORGIA POWER CO.
(Subsidiary of The Southern Co.)
J. W. Talley, Jr., Vice President, Economic Development
404-526-2201
J. L. Martin., Jr., Manager, Industrial Development
404-526-2586
M. G. Smith, Manager, Community Development
404-526-2659
J. L. Hill, Manager, Agricultural Affairs
404-526-7320
P.O. Box 4545, Atlanta, GA 30302

Serves over 95% of the State of Georgia.

■ SAVANNAH ELECTRIC & POWER CO.
W. Miles Greer, Vice President, Area Development
& Governmental Affairs
P.O. Box 968, Savannah, GA 31402
912-238-2280

Serves the city of Savannah and counties of Chatham, Effingham, Bryan, Bulloch, and Screven.

HAWAII

■ HAWAII ELECTRIC LIGHT CO., INC.
J. P. Corbelli, Manager, Administration Department
P.O. Box 1027, Hilo, HI 96720
808-935-1171

Serves the Island of Hawaii.

■ HAWAIIAN ELECTRIC CO., INC.
Robert L. Vieira, Director, Area Development
P.O. Box 2750, Honolulu, HI 96840-0001
808-548-4494

Serves the city of Honolulu and the Island of Oahu.

■ MAUI ELECTRIC CO., LTD.
Jessie Akagi, Manager, Administration Department
P.O. Box 398, Kahului, HI 96732-0398
808-871-8461

Serves the Islands of Maui and Lanai.

IDAHO

■ IDAHO POWER CO.
Richard L. Hahn, Manager, Industrial Development
P.O. Box 70, Boise, ID 83707
208-383-2513

Serves an area located principally along the Snake River in southern Idaho, eastern Oregon, and northeastern Nevada.

■ PACIFIC POWER & LIGHT CO.
Scott R. Hannigan, Director, Economic Development
920 S.W. Sixth Ave., 460 PFFC, Portland, OR 97204
503-243-3152

Serves parts of six states as follows:
Idaho—northern
California—northern
Montana—northwestern
Oregon—western, northern central, and southern
Washington—south central and southeastern
Wyoming—north central, central and southern

■ UTAH POWER & LIGHT CO.
Margaret Hunt, Economic Development Coordinator
P.O. Box 899, Salt Lake City, UT 84110
801-535-4177

Serves Utah, southeastern Idaho, and southwestern tip of Wyoming.

■ THE WASHINGTON WATER POWER CO.
Peter A. Kerwien, Manager, Industrial Development
P.O. Box 3727, Spokane, WA 99220
509-482-4772

Serves the eastern part of the State of Washington and northern Idaho.

ILLINOIS

■ CENTRAL ILLINOIS LIGHT CO.
Stan E. Ogden, Economic Development Representative
Office of Economic Development
300 Liberty St., Peoria, IL 61602-1404
309-672-5015

Serves 161 communities in central and east central Illinois including Peoria, one of the largest metropolitan areas in the State, and Springfield, the State's capital.

■ CENTRAL ILLINOIS PUBLIC SERVICE CO.
Ray M. Thompson, P.E., Manager, Industrial Services
607 E. Adams St., Springfield, IL 62739
217-525-5241

Serves more than 577 communities in 65 counties of central and southern Illinois.

■ COMMONWEALTH EDISON CO.
J. Jack Stephens, Director, Economic Development
One First National Plaza, 38th Floor East,
P.O. Box 767, Chicago, IL 60690
312-294-3038

Serves the Chicago metropolitan area and most of northern Illinois.

■ ILLINOIS POWER CO.
Dean Cunningham, Manager, Economic Development
500 South 27th St., Decatur, IL 62525-1805
217-424-6888

Serves 419 communities in north, central and southern Illinois.

ILLINOIS, INDIANA, IOWA

- INTERSTATE POWER CO.
  Alfred D. Cordes, Vice President, District Administration
  1000 Main St., P.O. Box 769, Dubuque, IA 52004-0769
  319-582-5421 Ext. 205

  Serves northeastern and northern Iowa, part of southern Minnesota and four counties in northwestern Illinois.

- IOWA-ILLINOIS GAS & ELECTRIC CO.
  John H. Wetzel, Director, Area Development
  206 E. 2nd St., P.O. Box 4350, Davenport, IA 52808
  319-326-7135

  Serves Illinois Quad Cities and adjacent suburban and rural areas of each.

- UNION ELECTRIC CO.
  R. E. Stevens, Supervising Engineer, Marketing Services
  P.O. Box 149, St. Louis, MO 63166
  314-554-2054

  Serves portions of St. Clair, Madison and Hancock Counties, including Alton and East St. Louis, Illinois. (See also Missouri and Iowa.)

- WISCONSIN POWER & LIGHT CO.
  Dean Baumgardner, Economic Development Manager
  222 West Washington Ave., P. O. Box 192,
  Madison, WI 53701-0192
  608-252-5079

  Serves South Beloit and Rockton in Illinois on the Wisconsin State line, and central, southern, and southwestern Wisconsin.

INDIANA

- THE CINCINNATI GAS & ELECTRIC CO.
  Jerome A. Keller, Area Development Representative
  139 East Fourth St., Cincinnati, OH 45202
  513-632-2595

  Serves 3,000 square miles in southwestern Ohio, southeastern Indiana, and northern Kentucky.

- INDIANA MICHIGAN POWER CO.
  (Subsidiary of American Electric Power Co.)
  Robert Y. Adams, Executive Assistant
  One Summit Square, P.O. Box 60, Fort Wayne, IN 46801
  219-425-2153

  Alternate source for information:
  Andy L. Lowry, Director, Economic Development
  American Electric Power Service Corp.
  1 Riverside Plaza, P.O. Box 16631, Columbus, OH 43216-6631
  614-223-2720

  Serves an area in northern and eastern Indiana and the southwestern part of Michigan.

- INDIANAPOLIS POWER & LIGHT CO.
  Daniel J. Brackemyre, Consultant, Economic Development
  25 Monument Circle, Room 671, Indianapolis, IN 46204
  317-261-8395

  Serves Indianapolis, Marion County, and adjacent area.

- NORTHERN INDIANA PUBLIC SERVICE CO.
  Edward H. Bowles, Director, Area Development
  5265 Hohman Ave., Hammond, IN 46320
  219-853-5237

  Serves 30 counties in northern Indiana.

- PUBLIC SERVICE CO. OF INDIANA, INC.
  Stephen P. Biggerstaff, Director, Economic Development
  1000 E. Main St., Plainfield, IN 46168
  317-838-1887

  Alternate source for information:
  Richard D. Zimmerman, Manager, Economic Development
  1000 E. Main St., Plainfield, IN 46168
  317-838-1204

  Serves 69 counties in north central, central, and southern Indiana.

- SOUTHERN INDIANA GAS & ELECTRIC CO.
  Jay W. Picking, Jr., Director, Marketing & Area Development
  20-24 N.W. Fourth St., Evansville, IN 47741
  812-464-4603

  Serves southwestern portion of the State of Indiana.

IOWA

- INTERSTATE POWER CO.
  Alfred D. Cordes, Vice President, District Administration
  1000 Main St., P.O. Box 769, Dubuque, IA 52004-0769
  319-582-5421 Ext. 205

  Serves northeastern and northern Iowa, part of southern Minnesota and four counties in northwestern Illinois.

- IOWA ELECTRIC LIGHT & POWER CO.
  Ernest A. Tippie, Manager, Sales & Business Development
  P.O. Box 351, Cedar Rapids, IA 52406
  319-398-4542

  Serves 51 counties in eastern, central and northwestern Iowa.

- IOWA-ILLINOIS GAS & ELECTRIC CO.
  John H. Wetzel, Director, Area Development
  206 E. 2nd St., P.O. Box 4350, Davenport, IA 52808
  319-326-7135

  Serves Davenport, Fort Dodge, Iowa City, Iowa and adjacent suburban and rural areas of each.

- IOWA POWER & LIGHT CO.
  Gary L. Owens, Director, Economic Development
  P.O. Box 657, Des Moines, IA 50303
  515-281-2329

  Serves 25 counties in central and southwestern Iowa.

■ IOWA PUBLIC SERVICE CO.
(Subsidiary of Midwest Energy Co.)
Glenn M. Ivarsen, Manager, Economic Development
Terra Centre, Suite 901, 600 4th St., P.O. Box 1348,
Sioux City, IA 51102
712-277-7710

Serves northwest and central Iowa, including Sioux City and Waterloo, and a portion of southeast South Dakota.

■ IOWA SOUTHERN UTILITIES CO.
Ronald A. Padavich, Manager, Area Development
300 Sheridan Ave., Centerville, IA 52544
515-437-4400

Operates in 24 counties in southern and southeastern Iowa.

■ UNION ELECTRIC CO.
R. E. Stevens, Supervising Engineer, Marketing Services
P.O. Box 149, St. Louis, MO 63166
314-554-2054

Serves southeastern corner of Iowa, primarily Lee County including Keokuk and Ft. Madison. (See also Missouri and Illinois.)

KANSAS

■ CENTEL ELECTRIC—KANSAS
W. S. McGinley, General Personnel/Administrative Staff Manager
P.O. Box 170, Great Bend, KS 67530
316-793-7841

Serves central, northern and southwestern Kansas.

■ THE EMPIRE DISTRICT ELECTRIC CO.
H. Wayne Hackney, Director, Technical & Industrial Services
602 Joplin St., Joplin, MO 64801
417-623-4700 Ext. 314

Serves part of southwestern Missouri, southeastern Kansas, northeastern Oklahoma, and northwestern Arkansas.

■ KANSAS CITY POWER & LIGHT CO.
John Shireman, Director, Sales & Business Development
P.O. Box 679, Kansas City, MO 64141
816-556-2148

Serves 12 counties in eastern Kansas and 11 counties in western Missouri, including the major portion of the Greater Kansas City area.

■ KANSAS GAS & ELECTRIC CO.
C. W. Underkofler, Manager, Area Development
P.O. Box 208, Wichita, KS 67201
316-261-6986

Serves 23 southeastern Kansas counties including 157 towns and cities, among which is metropolitan Wichita.

■ KPL GAS SERVICE
Rodney W. Weinmeister, Director, Industrial Development
818 Kansas Ave., P.O. Box 889, Topeka, KS 66601
913-296-6473

Serves a 27,500 square mile area in northeastern, central and southwestern Kansas encompassing 350 cities, including the majority of its metropolitan centers, and over half of the State's 105 counties.

■ SOUTHWESTERN PUBLIC SERVICE CO.
Jonathan D. Krebs, C.I.D., Manager, Area Development
Tyler at 6th, P.O. Box 1261, Amarillo, TX 79170
806-378-2183

Serves the Texas Panhandle and South Plains, eastern New Mexico, Oklahoma Panhandle and southwestern Kansas.

KENTUCKY

■ KENTUCKY POWER CO.
(Subsidiary of American Electric Power Co.)
A. V. Rash, Economic Development Manager
1701 Central Ave., P.O. Box 1428, Ashland, KY 41101
606-327-1244

Alternate source for information:
Andy L. Lowry, Director, Economic Development
American Electric Power Service Corp.
1 Riverside Plaza, P.O. Box 16631, Columbus, OH 43216-6631
614-223-2720

Serves eastern Kentucky.

■ KENTUCKY UTILITIES CO. & OLD DOMINION POWER CO.
(Subsidiary of Kentucky Utilities Co.)
Joseph A. Gibson, Manager, Economic Development
One Quality St., Lexington, KY 40507
606-255-1461

Serves southeastern, northern, central, and western Kentucky, and western Virginia.

■ LOUISVILLE GAS & ELECTRIC CO.
Kenneth L. Meredith, Manager, Economic Development
& Market Research
311 West Chestnut St., P.O. Box 32010, Louisville, KY 40232
502-566-4488

Serves Louisville, Jefferson County and surrounding counties.

■ THE UNION LIGHT, HEAT & POWER CO.
(Subsidiary of The Cincinnati Gas & Electric Co.)
M. Winston Johnson, Area Development Representative
107 Brent Spence Square, Covington, KY 41011
513-632-2595

Serves the northern Kentucky area.

LOUISIANA

■ CENTRAL LOUISIANA ELECTRIC CO., INC.
Ron Blankenship, Manager, Industrial Services
& Economic Development
2030 Donahue Ferry Rd., P.O. Box 5000,
Pineville, LA 71361-5000
318-484-7645

Serves central, west, southwest, west north central, south central, and a portion of southeastern Louisiana.

■ GULF STATES UTILITIES CO.
John R. Bordelon, Administrator, Economic Development
P.O. Box 2951, Beaumont, TX 77704
409-838-6631 Ext. 4319

Serves south central Louisiana to and including Baton Rouge and the Mississippi River and part of southeastern Texas, including the Beaumont, Port Arthur, and Orange areas and areas north of Houston.

■ LOUISIANA POWER & LIGHT CO.
(Subsidiary of Middle South Utilities, Inc.)
J. Michael O'Hare, Area & Industrial Development Manager
P.O. Box 6008, New Orleans, LA 70174
504-363-8801

Alternate source for information:
J. Hugh Nichols, Director, Regional Economic Development
Middle South Utilities System
P.O. Box 61000, New Orleans, LA 70161
504-569-4720

Serves the New Orleans metropolitan area and a major portion of southeast Louisiana downstream from Baton Rouge, together with most of the northern part of the State.

NOTE: The Economic Development groups of Louisiana Power & Light Company and New Orleans Public Service have been functionally consolidated. For information about New Orleans, contact J. Michael O'Hare as indicated above.

■ NEW ORLEANS PUBLIC SERVICE, INC.
(Subsidiary of Middle South Utilities, Inc.)
J. Michael O'Hare, Area & Industrial Development Manager
P.O. Box 6008, New Orleans, LA 70174
504-363-8801

Alternate source for information:
J. Hugh Nichols, Director, Regional Economic Development
Middle South Utilities System
P.O. Box 61000, New Orleans, LA 70161
504-569-4720

Serves the city of New Orleans, Louisiana.

■ SOUTHWESTERN ELECTRIC POWER CO.
(Subsidiary of Central & South West Corp.)
Neal Baremore, Manager, Economic Development
P.O. Box 21106, Shreveport, LA 71156
318-222-2141

Alternate source for information:
Jane Kilby, Director, Business Development
Central & South West Services, Inc.
P.O. Box 660164, Dallas, TX 75266-0164
214-754-1000

Serves northeastern Texas, northwestern Louisiana, and western Arkansas.

MAINE

■ BANGOR HYDRO-ELECTRIC CO.
Steven P. Kalisz, Director, Power & Market Development
33 State St., P.O. Box 932, Bangor, ME 04401
207-945-5621

Serves central and eastern Maine.

■ CENTRAL MAINE POWER CO.
Richard F. Wagner, Jr., CID, Director, Business
& Community Services
Edison Drive, Augusta, ME 04336
207-623-3521 Ext. 2392

Serves central, southern, and western Maine, including cities of Biddeford, Saco, Portland, Auburn and Lewiston.

MARYLAND

■ BALTIMORE GAS & ELECTRIC CO.
Chet G. Feeser, Director, Economic Development
P.O. Box 1475, Baltimore, MD 21203
301-298-1936

Serves the entire Baltimore metropolitan area.

■ CONOWINGO POWER CO.
(Subsidiary of Philadelphia Electric Co.)
E. Martin Shane, Manager, Area Development
Philadelphia Electric Co.
2301 Market St., S-18-1, Philadelphia, PA 19101
215-841-5657

Serves large portion of Cecil County, Maryland, and Fifth Election District, Harford County, Maryland. Larger communities are Chesapeake City, Elkton, North East and Perryville.

■ DELMARVA POWER & LIGHT CO.
Paul J. Hockersmith, Manager, Economic Development
800 King St., Box 231, Wilmington, DE 19899
302-429-3160

Serves that portion of Maryland on the Delmarva Peninsula.

■ THE POTOMAC EDISON CO.
(Part of the Allegheny Power System)
J. Michael Eckard, Supervisor, Economic Development
Downsville Pike, Hagerstown, MD 21740
301-790-3400

Serves central and western Maryland, northern Virginia and northeast West Virginia.

■ POTOMAC ELECTRIC POWER CO.
John H. Stevenson, Manager, Sales Department
1900 Pennsylvania Ave., N.W., Washington, D.C. 20068
202-872-2469

Serves District of Columbia and most of Prince Georges and Montgomery Counties in Maryland.

MASSACHUSETTS

■ BOSTON EDISON CO.
John F. Pierce, Administrator, Public Housing/Economic Development
800 Boylston St., Boston, MA 02199
617-424-2264

Serves Boston and eastern Massachusetts.

■ COMMONWEALTH ELECTRIC CO.
(Subsidiary of Commonwealth Energy System)
Michael Renzi, Director, Energy Services
2421 Cranberry Highway, Wareham, MA 02571
617-291-0950 Ext. 3306

Serves southeastern Massachusetts in Bristol and Plymouth counties, including city of New Bedford, and Cape Cod and Martha's Vineyard.

■ EASTERN EDISON CO.
(Subsidiary of Eastern Utilities Associates)

Brockton Division
Gordon Jezard, Consumer Services Manager
P.O. Box 471, Brockton, MA 02403
617-580-1213

Fall River Division
Samuel A. Reid, Consumer Services Manager
P.O. Box 511, Fall River, MA 02721
617-679-2194

Serves Brockton, Mass., and Fall River, Mass., and environs in eastern Massachusetts.

■ FITCHBURG GAS & ELECTRIC LIGHT CO.
Lawrence T. Gingrow, Jr., Vice President
285 John Fitch Highway, P.O. Box 2070, Fitchburg, MA 01420
617-343-6931

Alternate source for information:
Mary Ann McInnes, Energy Services Coordinator
285 John Fitch Highway, P.O. Box 2070, Fitchburg, MA 01420
617-343-6931

Serves east north central Massachusetts, including Fitchburg, Lunenberg, Townsend, Ashby, Gardner and Westminster.

■ MASSACHUSETTS ELECTRIC CO.
(Subsidiary of NEES)
Howard W. Cook, Director, Commercial & Industrial Services
25 Research Drive, Westboro, MA 01581
617-366-9011

Serves eastern, central, and parts of western Massachusetts.

■ MONTAUP ELECTRIC CO.
(Subsidiary of Eastern Utilities Associates)
Charles E. Curtis, Plant Manager
1606 Riverside Ave., Somerset, MA 02726
617-678-5283

Serves southeastern Massachusetts and parts of Rhode Island.

■ NEW ENGLAND POWER SERVICE CO.
(Subsidiary of NEES)
Howard W. Cook, Director, Commercial & Industrial Services
25 Research Drive, Westboro, MA 01581
617-366-9011

A service company to Massachusetts Electric Co., Granite State Electric Co., and Narragansett Electric Co. Serves Rhode Island, Massachusetts, and New Hampshire.

■ NORTHEAST UTILITIES SERVICE CO.
Holyoke Water Power Co.

Serves part of Holyoke, Massachusetts, and immediate surrounding communities.

Western Massachusetts Electric Co.

Serves western Massachusetts, including cities of Greenfield, Pittsfield and Springfield.

H. Donald Burbank, Director, Marketing Services
Northeast Utilities
P.O. Box 270, Hartford, CT 06141
203-721-2701

MICHIGAN

■ CONSUMERS POWER CO.
Richard R. Surbrook, Director, Economic Development
212 W. Michigan Ave., Jackson, MI 49201
517-788-0344

Serves in 67 of the 68 counties in Michigan's lower peninsula.

■ THE DETROIT EDISON CO.
Matthew L. Piernick, Director, Economic Development
2000 Second Ave., Detroit, MI 48226
313-237-8883

Serves 13 counties in southeastern Michigan, including metropolitan Detroit.

■ EDISON SAULT ELECTRIC CO.
Donald Sawruk, Secretary-Treasurer
P.O. Box 359, Sault Ste. Marie, MI 49783
906-632-2221 Ext. 220

Serves eastern Upper Peninsula of Michigan.

MICHIGAN, MINNESOTA, MISSISSIPPI, MISSOURI

■ INDIANA MICHIGAN POWER CO.
(Subsidiary of American Electric Power Co.)
Barry L. Visel, Economic Development Consultant
100 South Main St., P.O. Box 367, Three Rivers, MI 49093
616-279-5261

Alternate sources for information:
Robert Y. Adams, Executive Assistant
One Summit Square, P.O. Box 60, Fort Wayne, IN 46801
219-425-2153

Andy L. Lowry, Director, Economic Development
American Electric Power Service Corp.
1 Riverside Plaza, P.O. Box 16631, Columbus, OH 43216-6631
614-223-2720

Serves an area in northern and eastern Indiana and the southwestern part of Michigan.

■ NORTHERN STATES POWER CO. (WIS.)
(Subsidiary of Northern States Power Co.)
John Podlesny, Coordinator, Area Development
101 W. Second St., Ashland, WI 54806
715-682-4511

Serves northern Wisconsin and upper Michigan.

■ UPPER PENINSULA POWER CO.
Walter F. Kuntze, Manager, Customer Service
616 Shelden Ave., Houghton, MI 49931
906-482-0220

Serves the north central part of the Upper Peninsula of Michigan.

■ WISCONSIN ELECTRIC POWER CO.
Kristine Rappé Manager, Economic Development
231 W. Michigan St., Milwaukee, WI 53203
414-221-3188

Serves 15 counties in southeastern Wisconsin, including Milwaukee, Kenosha and Racine; plus, all or parts of seven counties in east central Wisconsin, including Appleton and the Fox Cities; and an extended portion of the central Upper Peninsula of Michigan, including Iron Mountain, and portions of the northern contiguous Wisconsin counties.

■ WISCONSIN PUBLIC SERVICE CORP.
Theodore J. Penn, Director, Economic Development
700 N. Adams St., P.O. Box 19001, Green Bay, WI 54307-9001
414-433-1627
Out-of-State Toll Free 1-800-558-1807

Serves 10,000 square miles in northeastern Wisconsin and one county in Michigan from the Michigan-Wisconsin border south to the Green Bay metropolitan area; Sheboygan and Oshkosh and west to Stevens Point and Wausau, Wisconsin.

MINNESOTA

■ INTERSTATE POWER CO.
Alfred D. Cordes, Vice President, District Administration
1000 Main St., P.O. Box 769, Dubuque, IA 52004-0769
319-582-5421 Ext. 205

Serves northeastern and northern Iowa, part of southern Minnesota and four counties in northwestern Illinois.

■ MINNESOTA POWER
Charles T. Sickel, Director, Area Development
30 W. Superior St., Duluth, MN 55802
218-722-2641

Serves central and northeastern Minnesota.

■ NORTHERN STATES POWER CO.
Anita Duckor, Manager, Economic Development
414 Nicollet Mall, Minneapolis, MN 55401
612-330-6446

Serves central, southern, and northwestern Minnesota (including Minneapolis and St. Paul), southeastern South Dakota, and eastern and central North Dakota.

■ OTTER TAIL POWER CO.
Irene J. Johnson, Manager, Economic Development
315 S.E. 2, P.O. Box 2220, Jamestown, ND 58402
701-252-0540

Serves eastern parts of North Dakota and South Dakota, as well as part of western Minnesota.

MISSISSIPPI

■ MISSISSIPPI POWER & LIGHT CO.
(Subsidiary of Middle South Utilities, Inc.)
Will L. Mayo, Manager, Economic Development
P.O. Box 1640, Jackson, MS 39205
601-969-2343

Alternate source for information:
J. Hugh Nichols, Director, Regional Economic Development
Middle South Utilities System
P.O. Box 61000, New Orleans, LA 70161
504-569-4720

Serves the western half of Mississippi.

■ MISSISSIPPI POWER CO.
(Subsidiary of The Southern Co.)
C. M. "Chuck" Ueltschey, Jr., Manager, Industrial Development
P.O. Box 4079, Gulfport, MS 39520
601-865-5850

Serves 23 counties in southeast Mississippi.

MISSOURI

■ ARKANSAS POWER & LIGHT CO.
(Subsidiary of Middle South Utilities, Inc.)
Mike Russ, General Manager, Business Development
P.O. Box 551, Little Rock, AR 72203
501-377-4445

Alternate source for information:
J. Hugh Nichols, Director, Regional Economic Development
Middle South Utilities System
P.O. Box 61000, New Orleans, LA 70161
504-569-4720

Primarily serves Boot Hill, southeastern part of Missouri.

■ THE EMPIRE DISTRICT ELECTRIC CO.
H. Wayne Hackney, Director, Technical & Industrial Services
602 Joplin St., Joplin, MO 64801
417-623-4700 Ext. 314

Serves part of southwestern Missouri, southeastern Kansas, northeastern Oklahoma, and northwestern Arkansas.

■ KANSAS CITY POWER & LIGHT CO.
John Shireman, Director, Sales & Business Development
P.O. Box 679, Kansas City, MO 64141
816-556-2148

Serves 12 counties in eastern Kansas and 11 counties in western Missouri, including the major portion of the Greater Kansas City area.

■ MISSOURI PUBLIC SERVICE CO.
Harold L. Kirk, C.I.D., Manager, Industrial Development
10700 E. M-350 Highway, P.O. Box 11739,
Kansas City, MO 64138
816-737-9346

Alternate source for information:
Pat Ryan, Manager, Area Development
10700 E. M-350 Highway, P.O. Box 11739,
Kansas City; MO 64138
816-737-9346

Serves 28 counties in west central and north central Missouri and 70% of metropolitan Kansas City, Missouri.

■ ST. JOSEPH LIGHT & POWER CO.
Robert L. Slater, Vice President, Administration
520 Francis St., St. Joseph, MO 64501
816-233-8888

Serves 3,700 square mile territory including parts of 10 counties, city of St. Joseph and 73 other communities in northwestern Missouri. Territory borders Iowa, Nebraska and Kansas.

■ UNION ELECTRIC CO.
R. E. Stevens, Supervising Engineer, Marketing Services
P.O. Box 149, St. Louis, MO 63166
314-554-2054

Serves eastern and central Missouri, including the city of St. Louis. In Illinois, serves portions of St. Clair, Madison, and Hancock Counties, including Alton and East St. Louis. In Iowa, serves southeastern corner, primarily Lee County, including Keokuk and Ft. Madison.

MONTANA

■ BLACK HILLS POWER & LIGHT CO.
Joe E. Rovere, Vice President, Public Affairs
625 Ninth St., P.O. Box 1400, Rapid City, SD 57709
605-348-1700

Serves an area located in western South Dakota, eastern Wyoming and southeastern Montana.

■ MONTANA-DAKOTA UTILITIES CO.
Michael L. Fladeland, Economic Development Representative
400 North 4th St., Bismarck, ND 58501
701-222-7882

Serves four states as follows:
Montana—eastern
North Dakota—western and central
South Dakota—north central
Wyoming—north central

■ MONTANA POWER CO.
John E. Murphy, Manager, Industrial Marketing
40 E. Broadway, Butte, MT 59701
406-723-5421 Ext. 2751

Serves approximately the western three-fourths of Montana.

■ PACIFIC POWER & LIGHT CO.
Scott R. Hannigan, Director, Economic Development
920 S.W. Sixth Ave., 460 PFFC, Portland, OR 97204
503-243-3152

Serves parts of six states as follows:
Montana—northwestern
California—northern
Idaho—northern
Oregon—western, northern central, and southern
Washington—south central and southeastern
Wyoming—north central, central and southern

NEVADA

■ IDAHO POWER CO.
Richard L. Hahn, Manager, Industrial Development
P.O. Box 70, Boise, ID 83707
208-383-2513

Serves an area located principally along the Snake River in southern Idaho, eastern Oregon, and northeastern Nevada.

■ NEVADA POWER CO.
Sally L. Galati, Supervisor, Special Projects
P.O. Box 230, Las Vegas, NV 89151
702-367-5250

Serves metropolitan Las Vegas and portions of Clark County and Nye County.

■ SIERRA PACIFIC POWER CO.
L. Keith Porter, Manager, Market Research
P.O. Box 10100, Reno, NV 89520
702-689-4858

Serves western Nevada and eastern California, including Reno, Winnemucca, Elko, Carson City and Sparks, Nevada, and the Lake Tahoe Basin.

NEW HAMPSHIRE, NEW JERSEY, NEW MEXICO, NEW YORK

NEW HAMPSHIRE

■ CONCORD ELECTRIC CO.
James D. See, Assistant Vice President, Engineering
One McGuire St., Concord, NH 03302-1338
603-224-2311

Serves a portion of central New Hampshire including the city of Concord and 12 surrounding towns.

■ CONNECTICUT VALLEY ELECTRIC CO., INC.
John D. Moore, Director, Community Relations
77 Grove St., Rutland, VT 05701
802-773-2711

Serves two separate portions of western New Hampshire including the city of Claremont.

■ EXETER & HAMPTON ELECTRIC CO.
Michael J. Dalton, President
225 Water St., Exeter, NH 03833
603-772-5916

Serves 167 square miles in southeastern New Hampshire.

■ GRANITE STATE ELECTRIC CO.
(Subsidiary of NEES)
Howard W. Cook, Director, Commercial & Industrial Services
25 Research Drive, Westboro, MA 01581
617-366-9011

Serves part of southeastern New Hampshire and some communities along the Connecticut River.

■ PUBLIC SERVICE CO. OF NEW HAMPSHIRE
Norman R. Cullerot, Industrial Development Manager
1000 Elm Street, P.O. Box 330, Manchester, NJ 03105
603-669-4000 Ext 3015

Serves about 80% of the population in the State, including the cities of Manchester, Nashua, Portsmouth, Keene, Dover, Berlin, Laconia, Franklin, Rochester, and Somersworth.

NEW JERSEY

■ ATLANTIC CITY ELECTRIC CO.
Joseph Skroski, Manager, Marketing & Energy Services
1199 Black Horse Pike, P.O. Box 1264,
Pleasantville, NJ 08232
609-645-4517

Serving 2,700 square miles in the southern part of New Jersey.

■ JERSEY CENTRAL POWER & LIGHT CO.
(Subsidiary of General Public Utilities Corp.)
Robert B. Jensen, Commercial/Industrial Energy Services Manager
Madison Ave. at Punch Bowl Road, Morriston, NJ 07960
201-455-8325

Serves 43% of the State in the northwest and east central parts of New Jersey.

■ PUBLIC SERVICE ELECTRIC & GAS CO.
Stephen J. Kukan, General Manager, Area Development
80 Park Plaza, T-10-C, P.O. Box 570, Newark, NJ 07101
201-430-7589

Serves a section of central New Jersey extending from the northeastern corner above New York City to the central and southwestern portion below Philadelphia.

■ ROCKLAND ELECTRIC CO.
(Subsidiary of Orange & Rockland Utilities, Inc.)
Raymond J. Richardson, Vice President, Area Development
Orange & Rockland Utilities, Inc.
One Blue Hill Plaza, Pearl River, NY 10965
914-577-2542

Serves a part of northern New Jersey.

NEW MEXICO

■ EL PASO ELECTRIC CO.
Denise K. Higgins, Director, Industrial Energy Development
P.O. Box 982, El Paso, TX 79960
915-532-8281

Serves southwest New Mexico and far west Texas.

■ PUBLIC SERVICE CO. OF NEW MEXICO
Bill Moye, Economic Development Manager
Alvarado Square, Albuquerque, NM 87158
505-848-2859

Serves north central and southwestern New Mexico.

■ SOUTHWESTERN PUBLIC SERVICE CO.
Jonathan D. Krebs, C.I.D., Manager, Area Development
Tyler at 6th, P.O. Box 1261, Amarillo, TX 79170
806-378-2183

Serves the Texas Panhandle and South Plains, eastern New Mexico, Oklahoma Panhandle and southwestern Kansas.

■ TEXAS-NEW MEXICO POWER CO.
Bobby L. McCorkle, Manager, Area Development
P.O. Box 2943, Fort Worth, TX 76113-2943
817-731-0099

Serves areas in south central and southwest New Mexico.

NEW YORK

■ CENTRAL HUDSON GAS & ELECTRIC CORP.
Francis C. Skelly, Economic Development Director
284 South Ave., Poughkeepsie, NY 12601-4879
914-486-5318

Serves parts of eight counties in the Mid-Hudson Valley along both sides of the Hudson River including the cities of Beacon, Kingston, Newburgh and Poughkeepsie.

■ CONSOLIDATED EDISON CO. OF NEW YORK, INC.
John R. Manak, Manager, Area Development
4 Irving Place, New York, NY 10003
212-460-4153

Serves New York City and Westchester County.

■ NEW YORK STATE ELECTRIC & GAS CORP.
Richard D'Attilio, Manager, Economic Development
4500 Vestal Parkway East, Binghamton, NY 13903
607-729-2551

Serves 17,000 square miles in upstate New York—all or part of 43 counties and the major metropolitan areas of Binghamton and Elmira. Territory adjoins all other major metropolitan areas in the State.

■ ORANGE & ROCKLAND UTILITIES, INC.
Raymond J. Richardson, Vice President, Area Development
One Blue Hill Plaza, Pearl River, NY 10965
914-577-2542

Serves New York in Rockland County and most of Orange County, a part of northern New Jersey, and a small part of northeastern Pennsylvania.

NORTH CAROLINA

■ CAROLINA POWER & LIGHT CO.
William A. Poe, Director, Economic Development
P.O. Box 1551, Raleigh, NC 27602
919-836-6653

Serves most of eastern North Carolina, Asheville and environs, and northeastern quarter of South Carolina.

■ DUKE POWER CO.
Jack Roddey, Manager, Economic Development
P.O. Box 33189, Charlotte, NC 28242
704-373-4945

Serves central North Carolina and western South Carolina.

■ NORTH CAROLINA POWER
Jack A. Runion, Division Manager, Community & Governmental Relations
P.O. Box 370, Roanoke Rapids, NC 27870-0370
919-535-6018

Serves 22 counties in northeastern North Carolina.

NORTH DAKOTA

■ MONTANA-DAKOTA UTILITIES CO.
Michael L. Fladeland, Economic Development Representative
400 North 4th St., Bismarck, ND 58501
701-222-7882

Serves four states as follows:
North Dakota—western and central
Montana—eastern
South Dakota—north central
Wyoming—north central

■ NORTHERN STATES POWER CO.
Anita Duckor, Manager, Economic Development
414 Nicollet Mall, Minneapolis, MN 55401
612-330-6446

Serves central, southern, and northwestern Minnesota (including Minneapolis and St. Paul), southeastern South Dakota, and eastern and central North Dakota.

■ OTTER TAIL POWER CO.
Irene J. Johnson, Manager, Economic Development
315 S.E. 2, P.O. Box 2220, Jamestown, ND 58402
701-252-0540

Serves eastern parts of North Dakota and South Dakota, as well as part of western Minnesota.

OHIO

■ THE CINCINNATI GAS & ELECTRIC CO.
Jerome A. Keller, Area Development Representative
139 East Fourth St., Cincinnati, OH 45202
513-632-2595

Serves 3,000 square miles in southwestern Ohio, southeastern Indiana, and northern Kentucky.

■ THE CLEVELAND ELECTRIC ILLUMINATING CO.
George L. Vosmik, General Supervisor, Economic Development
P.O. Box 5000, Cleveland, OH 44101
216-447-2511

Serves Cleveland and northeast Ohio.

■ COLUMBUS SOUTHERN POWER CO.
(Subsidiary of American Electric Power Co.)
William B. Snyder, Economic Development Manager
215 N. Front St., Columbus, OH 43215
614-464-7388

Alternate source for information:
Andy L. Lowry, Director, Economic Development
American Electric Power Service Corp.
1 Riverside Plaza, P.O. Box 16631, Columbus, OH 43216-6631
614-223-2720

Serves Columbus and 25 counties in central and southern Ohio.

■ THE DAYTON POWER AND LIGHT CO.
James H. Yates, Manager, Marketing
Court House Plaza, S.W., P.O. Box 1247, Dayton, OH 45401
513-224-6286

Serves city of Dayton and 24 counties in west central Ohio.

■ MONONGAHELA POWER COMPANY
(Part of the Allegheny Power System)
Nancy R. Hobbs, Supervisor, Economic Development
1310 Fairmont Ave., Fairmont, WV 26554
304-367-3397

Serves northern half of West Virginia except eastern panhandle and Wheeling area. Also serves Marietta, Ohio, area.

OHIO, OKLAHOMA, OREGON, PENNSYLVANIA

■ OHIO EDISON CO.
James P. Easley, Director, Business Development
76 South Main St., 18th Floor, Akron, OH 44308
216-384-5829

Serves approximately 7,500 square miles in central, north central, and northeast Ohio.

■ OHIO POWER CO.
(Subsidiary of American Electric Power Co.)
James C. Gahris, Economic Development Manager
301 Cleveland Ave., P.O. Box 400, Canton, OH 44701
216-438-7842

Alternate source for information:
Andy L. Lowry, Director, Economic Development
American Electric Power Service Corp.
1 Riverside Plaza, P.O. Box 16631, Columbus, OH 43216-6631
614-223-2720

Serves northwestern, east central, eastern and southern sections of Ohio.

■ THE TOLEDO EDISON CO.
Donald F. Dick, Director, Area Development
300 Madison Ave., Toledo, OH 43652
419-249-5045

Serves the city of Toledo and eight counties of northwestern Ohio.

OKLAHOMA

■ THE EMPIRE DISTRICT ELECTRIC CO.
H. Wayne Hackney, Director, Technical & Industrial Services
602 Joplin St., Joplin, MO 64801
417-623-4700 Ext. 314

Serves part of southwestern Missouri, southeastern Kansas, northeastern Oklahoma, and northwestern Arkansas.

■ OKLAHOMA GAS & ELECTRIC CO.
Jack E. Rector, Manager, Economic Development
P.O. Box 321, Oklahoma City, OK 73101
405-272-3460

Serves over half of the State of Oklahoma and a part of west central Arkansas.

■ PUBLIC SERVICE CO. OF OKLAHOMA
(Subsidiary of Central & South West Corp.)
Bob N. Jackson, Economic Development Manager
212 East 6th St., P.O. Box 201, Tulsa, OK 74102
918-599-2289

Alternate sources for information:
J. Gregory Nixon, Economic Development Coordinator
Public Service Co. of Oklahoma
212 East 6th St., P.O. Box 201, Tulsa, OK 74102
918-599-2035

Jane Kilby, Director, Business Development
Central & South West Services, Inc.
P.O. Box 660164, Dallas, TX 75266-0164
214-754-1000

Serves 48 counties in eastern, southeastern and southwestern Oklahoma.

■ SOUTHWESTERN PUBLIC SERVICE CO.
Jonathan D. Krebs, C.I.D., Manager, Area Development
Tyler at 6th, P.O. Box 1261, Amarillo, TX 79170
806-378-2183

Serves the Texas Panhandle and South Plains, eastern New Mexico, Oklahoma Pandhandle and southwestern Kansas.

OREGON

■ IDAHO POWER CO.
Richard L. Hahn, Manager, Industrial Development
P.O. Box 70, Boise, ID 83707
208-383-2513

Serves an area located principally along the Snake River in southern Idaho, eastern Oregon, and northeastern Nevada.

■ PACIFIC POWER & LIGHT CO.
Scott R. Hannigan, Director, Economic Development
920 S.W. Sixth Ave., 460 PFFC, Portland, OR 97204
503-243-3152

Serves parts of six states as follows:
Oregon—western, northern central, and southern
California—northern
Idaho—northern
Montana—northwestern
Washington—south central and southeastern
Wyoming—north central, central and southern

■ PORTLAND GENERAL ELECTRIC CO.
Edward J. Whelan, General Manager, Economic Development
121 S.W. Salmon St., Portland, OR 97204
503-226-8857

Serves a 3,350 square mile area in Oregon bordering the Columbia River and including the cities of Portland and Salem.

PENNSYLVANIA

■ DUQUESNE LIGHT CO.
H. Donald Morine, General Manager, Marketing
& Economic Development
One Oxford Centre, 301 Grant Street, Pittsburgh, PA 15279
412-393-6330

Serves most of Allegheny and Beaver Counties in southwestern Pennsylvania, including the city of Pittsburgh.

■ METROPOLITAN EDISON CO.
Dave Murphy, Administrator, Community Services
2800 Pottsville Pike, P.O. Box 16001,
Reading, PA 19640-0001
215-921-6099

Serves most of eastern Pennsylvania from Poconos to Maryland border, including cities of Easton, Reading, Lebanon and York.

■ PENNSYLVANIA ELECTRIC CO.
(Subsidiary of General Public Utilities Corp.)
John A. Scheppner, Manager, Community Services
1001 Broad St., Johnstown, PA 15907
814-533-8452

Serves the electric energy needs of more than 533,000 residential, commercial and industrial customers in 31 counties in west-central, northwestern and northeastern Pennsylvania which represents about 40% of the State's land area and more than 700 communities including such cities as Erie, Johnstown and Altoona.

■ PENNSYLVANIA POWER & LIGHT CO.
Joseph R. Lesko, Manager, Economic Development
Two N. Ninth St., Allentown, PA 18101
215-770-5203
Toll-Free Inquiry Hotline—800-523-9854

Serves 10,000 square mile area in central eastern Pennsylvania to include all or parts of 29 counties. Larger communities are Allentown, Bethlehem, Harrisburg, Hazleton, Lancaster, Pottsville, Scranton, Williamsport, and Wilkes Barre.

■ PENNSYLVANIA POWER CO.
(Subsidiary of Ohio Edison Co.)
Richard L. Ross, Director, Area Development
One E. Washington St., P.O. Box 891,
New Castle, PA 16103-0891
412-656-5399 or 5400

Serves western Pennsylvania.

■ PHILADELPHIA ELECTRIC CO.
E. Martin Shane, Manager, Area Development
2301 Market St., S-18-1, Philadelphia, PA 19101
215-841-5657

Serves 1,978 square mile area in southeast Pennsylvania, including all or parts of Bucks, Chester, Delaware, Montgomery and Philadelphia counties. Principal communities are Chester, Coatesville, King of Prussia, Morrisville, Norristown, Philadelphia, and Pottstown.

■ PIKE COUNTY POWER & LIGHT CO.
(Subsidiary of Orange & Rockland Utilities, Inc.)
Raymond J. Richardson, Vice President, Area Development
Orange & Rockland Utilities, Inc.
One Blue Hill Plaza, Pearl River, NY 10965
914-577-2542

Serves a part of northeast Pennsylvania.

■ UGI CORP., LUZERNE ELECTRIC DIVISION
Joseph J. Rymar, Manager, Consumer Relations
247 Wyoming Ave., P.O. Box 1389, Kingston, PA 18704
717-283-0611

Serves 424 square mile area in Luzerne and Wyoming counties, in northeastern Pennsylvania.

■ WEST PENN POWER CO.
(Part of the Allegheny Power System)
Ralph J. Dinardo, Supervisor, Economic Development
800 Cabin Hill Drive, Greensburg, PA 15601
412-838-5901

Provides service to a gross area of 9,950 square miles in all or parts of 23 counties in southwestern, north central and south central Pennsylvania, with a population of 1.5 million.

RHODE ISLAND

■ BLACKSTONE VALLEY ELECTRIC CO.
(Subsidiary of Eastern Utilities Associates)
Harry A. Templeton, Consumer Services Manager
P.O. Box 1111, Lincoln, RI 02865
401-333-1400

Serves northern Rhode Island.

■ THE NARRAGANSETT ELECTRIC CO.
(Subsidiary of NEES)
Daniel H. Stafford, Division Consumer Services Manager
280 Melrose St., Providence, RI 02901
401-941-1400

Serves approximately 80% of the State of Rhode Island.

■ NEPORT ELECTRIC CORP.
Richard M. Wood, Director, Consumer Services
12 Turner Road, Middletown, RI 02840
401-847-4480

Serves the southeastern area of Rhode Island.

SOUTH CAROLINA

■ CAROLINA POWER & LIGHT CO.
Joseph T. Geddie, Director, Economic Development
P.O. Box F-1, Florence, SC 29501-0001
803-662-3264

Serves northeastern quarter of South Carolina.

■ DUKE POWER CO.
Jack Roddey, Manager, Economic Development
P.O. Box 33189, Charlotte, NC 28242
704-373-4945

Serves central North Carolina and western South Carolina.

■ SOUTH CAROLINA ELECTRIC & GAS CO.
John W. Nutt, Manager, Industrial Development
P.O. Box 764, Columbia, SC 29218
803-748-3335

Serves central, southern, and southwestern South Carolina.

SOUTH DAKOTA, TENNESSEE, TEXAS

SOUTH DAKOTA

■ BLACK HILLS POWER & LIGHT CO.
Joe E. Rovere, Vice President, Public Affairs
625 Ninth St., P.O. Box 1400, Rapid City, SD 57709
605-348-1700

Serves an area located in western South Dakota, eastern Wyoming and southeastern Montana.

■ IOWA PUBLIC SERVICE CO.
(Subsidiary of Midwest Energy Company)
Glenn M. Ivarsen, Manager, Economic Development
Terra Centre, Suite 901, 600 4th St., P.O. Box 1348,
Sioux City, IA 51102
712-277-7710

Serves 11 communities in southeast South Dakota, including Yankton and Canton, and 242 communities in Iowa, including Waterloo and Sioux City.

■ MONTANA-DAKOTA UTILITIES CO.
Michael L. Fladeland, Economic Development Representative
400 North 4th St., Bismarck, ND 58501
701-222-7882

Serves four states as follows:
South Dakota—north central
Montana—eastern
North Dakota—western and central
Wyoming—north central

■ NORTHERN STATES POWER CO.
Anita Duckor, Manager, Economic Development
414 Nicollet Mall, Minneapolis, MN 55401
612-330-6446

Serves in central, southern, and northwestern Minne [illegible] Minneapolis and St. Paul); southeastern South D [illegible] and central North Dakota.

■ NORTHWESTERN PUBLIC SERVICE CO.
Warren Lotsberg, Manager, Public Affairs
NWPS Building, 3rd & Dakota South, Hur
605-352-8411

Serves eastern South Dakota.

■ OTTER TAIL POWER CO.
Irene J. Johnson, Manager, Economic Development
315 S.E. 2, P.O. Box 2220, Jamestown, ND 58402
701-252-0540

Serves eastern parts of North Dakota and South Dakota as well as part of western Minnesota.

TENNESSEE

■ KINGSPORT POWER CO.
(Subsidiary of American Electric Power Co.)
Carl S. Bacon, Executive Assistant
P.O. Box 111, Kingsport, TN 37662
615-378-5255

Alternate source for information:
Andy L. Lowry, Director, Economic Development
American Electric Power Service Corp.
1 Riverside Plaza, P.O. Box 16631, Columbus, OH 43216-6631
614-223-2720

Serves the city of Kingsport in northeastern Tennessee and immediate adjacent area.

TEXAS

■ CENTRAL POWER & LIGHT CO.
(Subsidiary of Central & South West Corp.)
Bruce W. Miller, Manager, Economic Development
P.O. Box 2121, Corpus Christi, TX 78403
512-881-5699

Alternate source for information:
Jane Kilby, Director, Business Development
Central & South West Services, Inc.
P.O. Box 660164, Dallas, TX 75266-0164
214-754-1000

Serves south and southwest Texas.

■ DALLAS POWER & LIGHT CO.
(Division of Texas Utilities Electric Co.)
Bill Statham, Manager, Economic Development
1506 Commerce St., Dallas, TX 75201
214-698-7286

Serves cities of Dallas, Highland Park, University Park and Cockrell Hill.

■ EL PASO ELECTRIC CO.
Denise K. Higgins, Director, Industrial Energy Development
P.O. Box 982, El Paso, TX 79960
915-532-8281

Serves far west Texas and south central New Mexico.

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Senator CONRAD. Next, we will hear from Robert Thompson, the dean of the School of Agriculture at Purdue University, West Lafayette, Indiana.

Welcome. It is good to have you here.

As with all of the witnesses, your complete written statement will be made part of the record, and if you would care to summarize it, we will have a chance for questions.

STATEMENT OF ROBERT L. THOMPSON, DEAN, SCHOOL OF AGRICULTURE, PURDUE UNIVERSITY, WEST LAFAYETTE, IN

Mr. THOMPSON. Thank you very much, Mr. Chairman.

Strengthening the economy of rural America is going to require two basic strategies. One, we are going to have to diversify the economic base so that individual communities are less susceptible to fluctuations of the market, and two, we are going to have to generate wealth via new, higher paying jobs.

These goals can be accomplished through enhancing local natural and human resources, attracting new businesses to the community, expanding existing businesses, and encouraging new business start-ups, but to be successful will require investments in rural education and infrastructure.

Rural communities are under-investing in education. The educational attainment of a community's labor force is a critical factor in attracting new employers to the area.

Secretary Bergland already reviewed the high dropout rates in rural communities, and many of the other problems. Potential employers may reject a community because the management who would move to the community wouldn't want to put their kids in the local school system.

To raise rural community incomes is going to require enlarged investments in rural education.

The second essential element is infrastructure. This includes both transportation and communications infrastructure. Rural roads and bridges are in a sad state of repair. Many rural communities have lost rail, bus and air service due to regulation.

Without adequate transportation infrastructure, goods producing industries are not likely to locate in a rural community. Some rural communities are sufficiently remote that they will never be able to compete in producing goods.

However, we are in an information age today, and the high quality telecommunications capacity is a key infrastructure need for a community to participate in information based industries.

In addition to transportation and communications infrastructure, a community, of course, also needs water and sewer systems, health care, and other amenities to make that community an attractive place to live.

Traditional rural development policies have focused on job creation and infrastructure development, and while these are critical components of a rural development policy, they are not going to be enough to address today's complex issues.

There is also a need for balance between developing physical infrastructure and building the capacity of rural people to deal with their problems.

The Federal Government can demonstrate real leadership in the area of rural human resource development. Human resource policies help people adapt to changing technologies and marketplace conditions.

Rural people must have access to information, to new technologies, and also have the capacity to deal with constant change. This involves, in addition to elementary and secondary education, adult literacy programs, job training and retraining, and local leadership development.

The Cooperative Extension Service can play a vital role in building human capital. For over 75 years now, the Cooperative Extension Service has maintained a long-standing commitment to rural America.

With its educational programs based on research and knowledge, provided by the land-grant colleges and universities, and by the USDA, Extension is unique among educational institutions.

The nationwide partnership that functions at the local, county, State and national levels, has proven that it can make a difference in rural America. The professional staff available in nearly all the Nation's counties helps rural people identify their local needs, and through research, helps them to analyze alternative solutions to their concerns.

The land-grant system of research and extension is a valuable resource to have as a strong participant in rural revitalization efforts.

At Purdue University, I have responsibility for both research and extension, and I speak from first-hand experience about the need for strong Federal support in order to keep our land-grant system viable.

Our county extension agents and campus-based specialists play an important role in rural community leadership development, and in helping local leaders analyze and sort through the options facing their communities.

Campus-based specialists provide technical assistance, not only in the traditional areas of agriculture, home economics and forestry, but also in newly emerging high technology areas.

For example, we have a Value-Added Research Center at Purdue that helps Indiana firms break technology bottlenecks in food processing and other agricultural value-adding industries.

Our Schools of Engineering have a Technology Assistance Program, in which they provide consultation with Indiana manufacturing firms on technology problems. Purdue's Cooperative Extension Service has teamed up with three other State universities' management programs, to develop a series of videoteleconference management education programs for small businessmen.

Our School of Technology runs a Statewide Technology Program, that takes college courses into the factory, to permit inservice training to upgrade the quality of the local labor force.

A new rural technology component is being added to our Rural Development Center to facilitate diffusion of technologies from the university to industries and businesses located in rural communities.

These illustrate the kinds of roles that a land-grant university, with its teaching, research, and extension missions, can play in fostering rural economic development.

However, over the last decade, the land-grant university system has suffered a 20 percent erosion in the real Federal research and extension appropriations. This reduction has severely reduced the flexibility of the system to respond to the challenge of rural revitalization, one of the great problems facing rural America today.

The land-grant university system, with its roots and heritage anchored in the welfare of rural people, has the breadth of expertise and technical capabilities needed by rural communities striving to build local economies that complement their existing agricultural base.

The capability of these universities can be fully exploited, though, only if funds exist to support these critical programs.

Federal funds for this task are important in order to assure a national perspective, to promote cooperation between State and local governments, and to support these important efforts and programs that transcend State and local political boundaries.

As the U.S. faces the competitive economic challenges of a changing global economy, a national rural development policy can encourage appropriate actions at the State and local levels, to enhance the overall prosperity of the Nation.

The challenges faced by us interested in a viable rural America are not easy challenges, nor will quick and easy solutions work. However, with encouragement from the national level, those of us at the State level, and those working at the local levels, are ready to take on the challenges.

Thank you, Mr. Chairman.

Senator CONRAD. Thank you, Dean Thompson.

I would just like to ask you, if you were on this committee, and involved in the drafting of rural development legislation, what are the areas in which you would concentrate?

What are the things that you think are most fundamental to providing a basis, a strong foundation, for rural development?

Mr. THOMPSON. I would say there are two things that are absolutely essential, because without either one of them, rural development won't happen.

One is rural education, and the other is infrastructure, both communications and transportation. You know, historically, transportation was the priority, but now that we have moved into an information age, the telecommunications capacity is probably at least, if not more, important than the transportation infrastructure.

I identify those as the "without-which-nots" of rural economic development.

Senator CONRAD. All right, and I think that is very important. Let me go further.

What would you do, specifically, in the area of education, and specifically in the area of infrastructure, as part of a rural development package? What are the things that you would concentrate on to make sure that you had formed the foundation upon which you could build something?

Mr. **Thompson**. I would say in the education area, we need to do something to upgrade the quality of those rural schools, and also to stimulate more of those rural kids to stay in school.

In our State of Indiana, we have a 28 percent dropout rate now in public schools. This is an absolutely unacceptable situation when you drop out of high school so many doors are closed to a dropout.

We have to not only upgrade the quality of the schools and stimulate more kids to stay in school, but we also need adult education programs—job training and retraining, because the quality of the labor force is such a fundamental determinant of attracting jobs into those local communities.

In the infrastructure area, certainly something to enhance the quality of the telecommunications service in rural communities is important. There are also challenges in helping local leadership sort out their options. There needs to be a strong commitment to helping develop local leadership, and helping upgrade the quality of that leadership in their ability to analyze the local situation.

Senator **Conrad**. Thank you very much, Dean Thompson. We appreciate your testimony.

[The prepared statement of Mr. Thompson follows:]

STATEMENT OF ROBERT L. THOMPSON, DEAN OF AGRICULTURE
PURDUE UNIVERSITY

The 1980's have been a decade of great change in this country. Technologies are changing rapidly, markets have become global in nature, and many enterprises have undergone reorganization. Rural communities are caught in the midst of this economic transition. Across the country, rural communities are very diverse. The terms "rural" and "agriculture" are no longer synonymous. People living in rural areas make their living from a variety of sources. Today, only one in eleven people who live in rural areas are farmers. However, the economy of any given rural area tends to be specialized, primarily focused on agriculture, forestry, mining, energy or manufacturing. Consequently, when these export-dependent industries met with hard times during the early part of this decade, the rural communities dependent upon these economies were the hardest hit.

The depressed rural economy has suffered further due to the changing role of the Federal government. The deregulation of the banking system and transportation industry removed local control over many community decisions. At the same time, new Federalism returned the authority and fiscal responsibility for many community functions back to local governments without the attendant resources.

These forces, which are beyond the control of the local community, have created a widening social and economic gap between rural and urban America . Rural unemployment rates are about 31 percent higher, rural per capita income averages 25 percent lower, and rural poverty rates are one-third higher than in urban America. The ability of rural communities to respond to these changes is hampered by: out-migration of the younger and more educated workforce, an aging population, lack of local leadership and fiscally stressed local governments.

In the recent years of economic recovery, rural areas have not kept up in urban America: rural employment has grown at four percent per year compared to 13 percent in urban areas. Future employment growth is not likely to be in the two traditional rural economic sectors, agriculture and low-skill manufacturing. The Economic Research Service of the U.S. Department of Agriculture projects that if the industrial mix of rural America remains constant, most rural areas will generate jobs and income at only 73 percent of the rate of metropolitan America for the rest of the century. To enjoy the same rate of income and employment growth as urban areas, rural America has to undergo economic restructuring.

The Federal government has a long history of concern for rural America which dates back to the 1908 Country Life Commission. The time has come for the Federal government to renew its commitment to rural America. In the face of growing international competition, the country cannot afford to ignore the potential contributions rural America can make to the nation's economy. However, many rural assets and abilities remain underutilized. While an articulated rural policy need not require major Federal budget commitments, we do need national leadership to define goals and to stimulate the revitalization of rural America at the state and local levels.

President Bush recently announced that rural development is a Presidential priority. I compliment him for this action and for naming Secretary of Agriculture Clayton Yeutter to chair the inter-agency rural task force appointed by the White House. Those of us involved with this rural question look for positive results from these efforts. USDA has reviewed its past and future rural development efforts in a recent report, "Signs of Progress: A Report on Rural America's Revitalization Efforts." In addition to the national leadership provided through these recent actions, they provide an example for state and local governments of the importance of inter-agency cooperation and the coordination of programs to address the complex rural issues.

An articulated rural development policy must embody a broad perspective of rural development. Rural America is very diverse and consists of more than just farms and farmers. Census data show that farmers comprise less than 2 percent of the nation's population. Only 2.3 percent of the nation's total labor force is comprised of farm operators and workers, but 22 percent of the labor force is located in rural areas. Non-farm activities are increasingly important to the economy of rural areas. Farm policies may provide temporary income maintenance to farmers but they do not address the needs of rural development. Although the Federal government has provided record levels of farm price and income support in this decade, rural businesses have failed by the thousands. A successful rural development policy must go beyond the immediate concerns of the farm sector and address the issue of generating more off-farm jobs in rural America.

The Federal government can ensure that regulations and other Federal policies strengthen rural enterprises and encourage financial mechanisms for new investments which create rural jobs, increase incomes and expand public revenues. The issue is not so much one of new Federal money as it is one of sensitivity to avoid policies which inadvertently discriminate against rural areas. For example, according to a recent study by the National Governor's Association, the current mix of federal spending in rural America serves to maintain income rather than to promote economic change. More than 70 percent of Federal spending in rural areas (including farm programs Social Security, and welfare payments) goes to support the income of individuals compared to less than 50 percent of Federal spending in urban areas. Consequently, there is less Federal money in rural areas with which to diversify the local economy, to create more jobs, and to generate larger incomes and tax revenues.

Strengthening the economy of rural America requires two basic strategies: (1) to diversify the economic base so that individual communities are less susceptible to the fluctuations of the market and (2) to generate wealth via new, higher-paying jobs. These goals can be accomplished through enhancing local resources (natural and human resources), attracting new businesses to the community, expanding existing businesses and encouraging new business start-ups. To be successful will require investments in rural education and infrastructure.

Rural communities are underinvesting in education. The educational attainment of a community's labor force is a critical factor in attracting new employers to that area. Moreover, a potential employer may reject a community because the management who would move to the community would not be willing to put their children in the local school. To raise rural community incomes will require increased investments in rural education.

The second essential element is infrastructure. This includes both transportation and communications infrastructure. Rural roads and bridges are in a sad state of repair in many locations. Many rural communities have lost rail, bus, or air service due to deregulation. Without adequate transportation infrastructure, goods-producing industries are not likely to locate in a rural community. Some rural communities are sufficiently remote that they may never be able to compete in producing goods. However, we are in the information age today, and high quality telecommunications capacity is a key infrastructure need for a community to participate in information-based industries. In addition to transportation and communications infrastructure, a community also needs adequate water and sewer systems, health care, and other amenities that make the community an attractive place to live.

Although implementation of such programs takes place at the local level, the Federal government can play a role by encouraging inter-agency cooperation and consolidation of programs which offer greater flexibility to rural areas, provide incentives to build public-private partnerships in rural development and encourage multi-community approaches to rural problems.

Traditional rural development policies have focused on job creation and infrastructure development. While these are critical components of a rural development policy, they are not enough to address today's complex issues. There is a need for balance between developing physical infrastructure and building the capacity of the rural people to deal with their problems. Here again, the Federal government can demonstrate leadership in the area of rural human resource development. Human resource policies help people adapt to changing technologies and market place conditions. Rural people must have access to information, new technologies and the capacity to deal with constant change. This involves in addition to elementary and secondary education, adult literacy programs, job training and retraining, and local leadership development.

At a recent public meeting in a southern Indiana community, ways in which to bring in new businesses were being discussed. Water and sewer lines were in place in the community, and there were several available industrial sites. Forty-three percent of the adults did not have a high school education. Another 41 percent had only a high school diploma. Low-skill, low-pay jobs were the only source of local employment. Two youths stood up at the meeting and expressed their commitment to their home community. However, if they wanted to earn more than minimum wage, they were forced to go to an urban area. What are the future prospects for such a community, a very typical rural area?

The Cooperative Extension Service can play a vital role in building human capital. For over 75 years, the Extension Service has maintained a long-standing commitment to rural America. With its educational programs based on the research and knowledge provided by the land-grant colleges and universities and the USDA, Extension is unique among educational institutions. The nation-wide partnership that functions at the local, county, state and national levels, has proven that it can make a difference in rural America. The professional staff available in nearly all of the nation's counties helps rural people identify their local needs and, through research, helps them to analyze alternative solutions to their concerns. This technical assistance and research-based information are keys to building the capacity of rural communities to address their present and future needs.

The land-grant system of research and extension is a valuable resource to have as a strong participant in rural revitalization efforts. At Purdue University I have responsibility for both agricultural research and extension, and I speak from first-hand experience about the need for strong Federal support in order to keep the land-grant system viable.

Our county extension agents and campus-based specialists play an important role in rural community leadership development and in helping local leaders analyze and sort through the options facing their communities. Campus-based specialists provide technical assistance not only in the traditional areas of agriculture, home economics and forestry, but also in newly emerging high technology areas. Our Value-Added Research Center helps Indiana firms break technology bottlenecks in food processing and other agricultural value-adding industries.

Our Schools of Engineering have a Technology Assistance Program in which they provide consultation with Indiana manufacturing firms on technology problems. Purdue's Cooperative Extension Service has teamed up with three other state universities' management programs to develop a series of video teleconference management education programs for small businessmen. Our School of Technology runs a state-wide Technology Program that takes college courses into the factory to permit in-service training to upgrade the quality of the local labor force.

A new rural technology component is being added to our Rural Development Center to facilitate diffusion of technologies from the university to industries and businesses located in rural areas. These illustrate the kinds of roles that a land-grant university - with its teaching, research and extension missions - can play in fostering rural economic development. However, over the last decade the land-grant system has suffered a 20 percent erosion in the purchasing power of its Federal research and extension appropriations. This reduction has severely reduced the flexibility of the system to respond to the challenge of rural revitalization.

The land-grant university system, with its roots and heritage anchored in the welfare of rural people, has the breadth of expertise and technical capabilities needed by rural communities striving to build local economies that complement their existing agricultural base. The capability of these universities can be fully exploited only if funds exist to support these critical programs. Federal funds for this task are important in order to assure a national perspective, to promote cooperation among state and local governments, and to support those important efforts and programs that transcend state and local political boundaries.

As the U.S. faces the competitive economic challenges of a changing global economy, a national rural development policy can encourage appropriate actions at the state and local levels to enhance the overall prosperity of the nation. To do this we need to focus on:

(1) National leadership in establishing a rural development policy.

(2) Inter-agency cooperation, Federal-state-local partnerships and partnerships with the private sector.
(3) A broader perspective of rural development.
(4) Sensitivity to avoid policies that inadvertently place rural areas at a competitive disadvantage.
(5) Incentives to encourage the diversification and generation of new wealth in rural areas.
(6) Enhancement of human resource policies which build the capacity of rural people to adapt to change.

The challenges faced by those of us interested in a viable rural America are not easy challenges, nor will quick and easy solutions work. However, with encouragement from the national level, those of us at the state level and those working at the local levels, are ready to take on the challenges.

Senator CONRAD. I have just been informed that there will be a live quorum at 11 o'clock, and at 11:15, we must be in attendance for the impeachment proceedings against a Federal judge.

With that in mind, if my colleague would not mind, I would intend to go to the next witness, so that we might hear him before we are required to——

Senator BAUCUS. Who is the next witness?

Senator CONRAD. Our next witness is the Honorable James Everett, County Judge/Executive of Fulton County, Hickman, Kentucky.

Welcome.

Mr. EVERETT. Thank you, sir.

Senator CONRAD. It is good to have you here. If you would proceed and summarize your testimony, and hopefully we will have time for a few questions before we are required to be in attendance.

STATEMENT OF JAMES M. EVERETT, COUNTY JUDGE/EXECUTIVE, FULTON COUNTY, KY, HICKMAN, KY

Mr. EVERETT. Thank you.

I just briefly want to say thank you for your work on rural development. I represent a rural area, very much rural. We have a lot of serious problems in our area.

For example, as County Executive, I represent a county that is in the 10 lowest county budgets in the State of Kentucky, and of course, Kentucky is primarily a rural State overall. Additionally, we have lost a major industry this year, which has created a lot of problems for us with our employment and unemployment.

Additionally, we face a lot of serious problems, in that our population, as an overall average, is aging, and we are losing our young people, as we have heard here this morning from everyone else. So we are singing the same song.

But I do represent the local, grassroots effort, and I do feel like, Senator, that the real development efforts must take place at the local level, and I do feel like it may sound "cliche-ish," but all development is local. It has to begin there, and it must take place with that grassroots involvement.

I feel like, to be able to do that effectively, with the resources that could be brought to the situation, there are a lot of resources already in place. We do not have to create a new structure.

We are, for example, as local officials, and it has already been mentioned here this morning, involved in regional agencies—the area development districts in our case—that are very effective in delivering professional, technical services to my community, and we are also able to work with other regional agencies, State agencies, and Federal agencies.

USDA agencies, for example, are a partner with us, and I have worked with the Extension Service as an agent in the past. My degree is in agriculture, I have worked with ASCS, I am familiar with the Federal agencies and the roles and the resources they have, and we very much compliment those agencies for the work they do, and we feel they should become a full partner in the effort.

However, we feel like, in talking about the development strategy you talked about with Mr. Bergland, for example, in Fulton County, Kentucky, we have prepared what we call a county economic adjustment strategy, and this covers every area of economic development in the county.

Now, plugging this into the State's development strategy can take place through the area development districts, and this is how our strategy was developed, as a part of the State's overall rural economic development plan.

So, we contend, and would offer to you and to Mr. Bergland, the marriage can take place between State development strategy and local strategy through the already existing structures in the States, and in our case, the area development districts.

To briefly comment on the education situation, we do feel like that education is very important, and, as the Dean pointed out—and we agree with those comments—one of the projects we are working on now has extremely activated the folks in our community to look at improving the school systems, and that is the telecommunications project.

We are working on this with TVA. TVA has designated our enterprize zone as a development area, and we are working with them to put in interactive TV in our school system.

We do have a very small school system, and I agree with your comments, also, on the benefits of a small school system. However, my own daughter, for example, would like to take some courses that she can't take in the local school system.

With interactive TV, hopefully she will be able to do that, because we can plug in with many of the universities and larger school systems that may have a teacher that could provide her with a course that she might need, and other classmates as well.

Also, I feel one of the biggest benefits in a Federal strategy that would plug into the local grassroots effort would be one that would be flexible.

For example, what might work in my area, or what I may need—the missing link, the missing piece of the puzzle—might be different than a local community in North Dakota, for example, and I feel like that North Dakota community needs the same opportunity that my community would have in Fulton County, Kentucky.

There might be a different element, and I need that flexibility as a local official, in working with our development people, to help pull those links together, and hopefully we can do this with your effort here, and the work that you are doing on this bill.

Again, we would emphasize the grassroots effort, the fact that the development takes place at the local level, and the fact you are considering additional funds also—to areas that have matching moneys—now, this bothers me a great deal.

To me, that would make the rich communities richer, and it would make the poorer communities poorer. And I say that because my community could not come up with matching money for a revolving fund.

Now, we might come up with a small percentage, but not 50 percent, for example.

Senator CONRAD. Let me just pursue that question with you.

Mr. EVERETT. OK.

Senator CONRAD. I think that is a critical question we have to address. I must say to you, I agree. I mean, there are communities—the ones that need it the most, that don't have any matching money to put up.

Mr. EVERETT. Exactly.

Senator CONRAD. So what is the answer here? One thing we know is, you have to have local involvement and local commitment. If it is just coming from somewhere else, people don't feel the same level of involvement.

So what could we use as a surrogate for actual cash?

Mr. EVERETT. I think there are measures already in place, again, through our area development districts, by local communities involved in development efforts, trying to help themselves.

In other words, you have already pointed out this morning, you cannot walk into a community and hand them, on a silver platter, several hundreds of thousands of dollars and expect them to develop economically in their community. It will not happen.

It has to come from the local level. But again, our State development strategy, and our local communities that have developed strategies, are already involved in that effort.

There are agency folks involved with us from the Federal, State, local and regional levels, and by being able to plug all of that together, they know which communities are going to make use of those funds, to help build the economy.

For example, if you are working on a tourism project, for example, you can't just pull a single project out of context and say, we are going to fund this in a certain community.

If your development strategy points out that there is potential there—we are on the National Great River Road, for example, that runs through 10 States——

Senator BAUCUS. What is that?

Mr. EVERETT. The National Great River Road.

Senator BAUCUS. Great River Road.

Mr. EVERETT. Which is a part of the Mississippi River corridor, and that is promoted nationally, so we have some potential, I feel, in tourism. And if we have a tourism element in place, and we are working on that, and we have a missing link, then possibly there could be funds available from your programs that would help us to fit that missing link together.

We would provide the initiative, locally, in-kind services, other means of matching those efforts, not just handed to us on a silver platter.

Senator CONRAD. Who decides? Let us say you have a situation in which you have five different projects across the State that communities are interested in pursuing. The Governor and his economic development people have determined that the one that really has some serious prospects of success is project A. How do we assure that the Federal flow of funds actually goes to the project that has the greatest chance of success?

Mr. EVERETT. In Kentucky, and that is where my experience would lead me to respond, the State development strategy comes from regional development strategies, and the regional development strategies come from the local effort.

So the local plugs into the region, and the region plugs into the State, and therefore you come up with a comprehensive, overall, statewide plan, and that is, again, done through our local system, of local officials, regional development districts to the State level.

Senator CONRAD. Are they prioritized?

Mr. EVERETT. Yes, they are prioritized, on the regional level first, and then at the State level.

Senator CONRAD. Senator Baucus.

Senator BAUCUS. Thank you.

Judge, I would like to follow up a little bit on the problem of the matching funds.

I have introduced a bill which I will describe to you. Tell me whether you think it will work or not work, and how we can improve it.

Essentially, a nonprofit organization, in conjunction with a regular lending institution—let us say a co-op or an economic development organization—in conjunction with a regular lending institution can apply to the SBA for a grant.

Now, it has to be 50-50. That is, the SBA will grant up to, let us say, $500,000, and the local bank would have to provide a revolving loan up to $500,000. The thought is that then, with a total of $1 million, loans could be made to various businesses. Because one-half of that is grant money the interest rate could be much lower than otherwise would be the case.

Also because one-half is grant money local lending institutions might be more willing to participate.

Does this make sense, or is this the kind of match that is still unworkable in your area?

Mr. EVERETT. Without looking further in detail, my immediate response would be that my local banks are going to be leery of getting involved in development efforts, because they have not had that experience. They have not had someone to guide them, either technically or financially, through a situation, and part of our problem in rural America, is our small banks do not, (a) have the resources——

Senator BAUCUS. Or experience.

Mr. EVERETT. Or the experience, that is right, to understand and to participate in these kinds of programs.

Senator BAUCUS. We have to start somewhere to get that experience.

Mr. EVERETT. That is true.

Senator BAUCUS. Do you have any suggestions as to what additional steps might be necessary to begin that experience?

Mr. EVERETT. I feel like that the best programs that I have seen operating, and that we operate, for example, in our region, are revolving loan funds. Those funds put into an account——

Senator BAUCUS. Right.

Mr. EVERETT [continuing]. And then paid back, partly grant, partly loan—those types of programs are the type that I can participate in, I feel like, that would give us the greatest benefit to our small businesses and industries.

Senator BAUCUS. I also have another bill which addresses telecommunications. Basically it provides $30 million annually, for 5 years, to co-ops and other telephone companies, to provide low-interest—2 percent, or 3 percent—money for schools, businesses, hospitals, and so forth, to enhance telecommunications.

What is your reaction to that?

Mr. EVERETT. Exciting. I think, as has already been pointed out, rural America does not have to take the back seat in telecommunications, and it is something that we can participate in, just like international marketing.

Senator BAUCUS. That is true. I have these work days—where I work 1 day a month in Montana. Several weeks ago I worked at a hospital, in Kalispell, Montana. They are developing a facility to work with rural doctors, in which a rural doctor with a PC can call up an x ray of one of his/her patients, for example. It helps everybody involved.

Mr. EVERETT. Sure.

Senator BAUCUS. I mean, it helps rural doctors stay in rural communities.

Mr. EVERETT. That is right.

Senator CONRAD. Do you want to amend that statement that you work 1-day a month? [Laughter.]

Senator BAUCUS. That is not amended, because I tell everybody it is a 1 day a month of honest day's work. [Laughter.]

It is physical work, usually, too. It is not just sitting behind a desk.

Returning to the issue, doctors in the larger areas are helped, too, since they become more familiar with rural cases.

Mr. EVERETT. I think that has potential.

Senator BAUCUS. It also helps their practice a lot.

Mr. EVERETT. It would appear to me that one system could do it all—economic development, the schools, health. I do not see the necessity of that being split into separate systems.

Senator BAUCUS. That is the gist of my legislation. Thank you very much. I appreciate your willingness to discuss this very complicated issue.

Mr. EVERETT. Thank you.

Senator CONRAD. Thank you very much. We appreciate your taking the time to participate.

[The prepared statement of Mr. Everett follows:]

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Testimony of

James M. Everett*

Fulton County Judge/Executive

Before the

Committee on Agriculture, Nutrition and Forestry

United States Senate

on

DEVELOPMENT STRATEGY IN RURAL AMERICA

May 11, 1989

Washington, D.C.

*Elected two terms as County Judge/Executive, chief elected administrator, in Kentucky's most western county on the Mississippi River with a rural population of 8,000, down from 15,197 in 1920.

WEST IS BEST
Commonwealth of Kentucky

G C Barnett
James Black
Roy Nethery, Sr
Bill Parker

TESTIMONY OF JAMES M. EVERETT, FULTON COUNTY JUDGE/EXECUTIVE, BEFORE THE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY, ON DEVELOPMENT STRATEGY IN RURAL AMERICA, UNITED STATES SENATE, MAY 11, 1989.

HEART OF AMERICA
IN CRITICAL CONDITION!

Rural America - the heart of our country and our economy - **is in CRITICAL CONDITION!**

CONGRESS must provide the 'DOCTORS' (local officials and regional development districts) with the tools to provide adequate attention to cure the ills. Consultation with those paying the bill will support federal support to existing grassroots efforts to revitalize rural America.

Rural Americans need federal assistance to develop healthy local economies. During the 1980s, reduction in federal spending for community and economic development have limited the reach of many vital programs. The federal government can and should encourage the economic growth and diversification of small metropolitan and rural areas.

Strategic planning, infrastructure improvement, and small business assistance are the most important factors in the creation of private sector jobs and viable communities. Strategic planning helps a community to identify its assets and liabilities. Local officials and the private sector can then determine the best approach to development for their region. Without an adequate infrastructure, however, no community can sustain economic development. Only through modern roads, bridges, and telecommunication systems can rural communities overcome their isolation. Small business financing is also a fundamental requirement for economic development. Rural business owners need government programs such as revolving loan funds and loan guarantees to help create opportunities for growth. These three priorities -- strategic planning, infrastructure improvement, and small business assistance -- are essential for rural America to develop and compete in the global market of the 21st Century.

Rural development encompasses a multitude of issues, ranging from wastewater disposal to international trade. A stable local community also relies on a human services network. Efforts to insure access to hospitals, schools, housing, job training, and special services for both children and the elderly are needed. Rural communities require a comprehensive agenda, not within the purview of a single federal agency but including programs and initiatives from a number of departments. Rural America needs the Departments of Commerce, Transportation, Housing and Urban Development, Labor, Agriculture, Health and Human Services, and the Small Business Administration to reinvigorate and strengthen local communities.

All development is local. Economic development districts and regional councils provide the necessary link between federal and state programs and local level where development actually occurs. One vehicle for development is rooted everywhere and must be included in all national efforts. Local governments are the permanent institutions capable of achieving long-term improvements in their communities. Regional development organizations make it possible for local governments, business and community leaders to join together in a public-private partnership. They provide the professional staff capability to improve local government services and strengthen private sector development. These regional planning and development organizations are an essential resource in the effort to enhance the quality of life in rural America.

I. LOCAL ROLE AND ECONOMIC SITUATION:

A predominantly rural populace and agrarian economy has stood firmly as the staunch backbone of Fulton County, Kentucky's existence. Based on innovation and the finest farm land to be found in America, agriculture, and more specifically farming, provided a sound base.

Mechanizations; larger farm operations bringing a decrese in number of farm/farmers and laborers; and, currently the farm credit and marketing crisis of farmers has changed the face of our County. Not unlike many similar areas in America, choices are forced on our citizens have been to move to where jobs exist.

Industrialization was not readily accepted by our rural-thinking and agricultural-financed community. Leadership has struggled in seeking a harmonious relationship between agriculture and industry.

II. EFFECTS ON THE COMMUN'TY:

During the past decade the community has suffered **a high rate of unemployment** (10.5 to 14% using the unrealistic, far-from-real unemployment statistics), with **a severe pocket of economic deprivation** far above the state and national average (per capita income in 1983 was $9,409.). **Population loss** is well documented as families are forced to move out of the area seeking employment opportunities. The **population is growing older** with Fulton County having the largest number of citizens over 60 than any other county in the eight-county region of the Purchase Area. Likewise, we are among the lowest percentages in the young adult population.

Fulton County has one of the lowest educational attainment levels and one of the highest dropout rates nationally and in Kentucky.

A rapidly declining retail business district in the County Seat of Hickman; increasing numbers of dilapidated buildings; loss of community, business and governmental services; recent river trade declines; and, the lack of a thriving/growing economy in rural America have all dramatically threatened the very existence of our citizens!

III. **EFFECTS ON LOCAL GOVERNMENT:**

Recent federal budget policies have added appreciably to a serious set of circumstances to spell catastrophic results to small, rural communities. The damage is negatively impacting local government services and revenues, and thus, local businesses, industries, landowners, homeowners and citizens.

For example:

a) the loss of $100,000 in Revenue Sharing funds representing 1/5 of Fulton County's general operations budget;

b) state and federal mandates impact small local government harder and quicker due to low finances, and the regulations are usually written for larger areas;

c) regulations on landfills, jails, ambulance services, and other government operations place insurmountable obstacles in the avenue of efficient, affordable operations for smaller entities;

d) a narrow definition and lack of adequate concern for rural America add to the depression.

Fulton County faced a forced closure of the Jail in 1984 due to federally-mandated state standards. The cost of correction: $660,000 to build a new minimum 23-bed facility. Our 20-year repayment of only 33% of the cost (our share, due to state grant for 67%) has forced us to **add new tax revenue for 1987.**

The lack of an assisting federal rural development policy for counties in such dire straits is hampering efforts and forcing many such counties and cities further into a dilemma near panic.

Funding had to be cut or eliminated last year for local development efforts, airport, transit service, senior citizens programs, ambulance services, law enforcement, disaster and emergency services, and youth.

V. **COMMUNITY INITIATIVE LOCALLY:**

Dynamic changes and regenerating forces are producing new VISTAS - revitalization efforts unprecedented in Fulton County! Piloted by a driving force of inner zeal, cooperative visions of the once-thriving river county are beginning a trend reversal breaking through imminently with forceful impact.

New and emerging leadership is gaining confidence and making great strides; local cooperative initiatives have dispersed the self-serving political and business "bosses"; an impressive series of notable accomplishments have developed a firm foundation for future development.

Goals to change are identified. Objectives for development efforts are quantified. Results are emerging. But, assistance is needed.

As a community elected leader, I have sought and received tremendous support and technical assistance from the Purchase Area Development District in our region and as a Board member of the National Association of Development Organizations (NADO) in Washington.

Development efforts spurring the recent local initiatives have included:

1) **buying and rehabilitating** the only **railline** spur and saving the community's only industry;

2) designation as Kentucky's only rural and first **Enterprise Zone**, a development tool of local and state tax breaks for economically depressed areas;

3) development of a professional **video,** community marketing tool;

4) **TVA's** Demonstration Project designation; which is funding a full-time **Economic Development Director** headed by a group of volunteer leaders;

5) Designation of $7.5 millin for the **National Great River Road** through our county spurring tourism development, amenities, and local excitement.

With exciting encouragement from the **Economic Development Administration (EDA)**, locally we have been able to:

a) build an Area Vocational Training Center serving 3 school districts;

b) build a $1.5 million cargo loading/unloading facility on the river in one of only a few still water harbors along the Mississippi;

c) conduct a technical assistance study to lay the groundwork for $1.4 million to purchase and rehabilitate 51 miles of rail spur into our County.

The **Tennessee Valley Authority** has designated the Enterprise Zone portion of our county as a **PILOT DEMONSTRATION PROJECT** in development of rural areas, only 1 of 2 funded in the seven state area by the Non-power TVA Budget.

WHAT IS RURAL AMERICA?

All too often, rural (nonmetropolitan) America is equated with farming. Rolling waves of grain dominate the popular perception of rural life. Solutions to rural problems are assumed to revolve around crop subsidies. In reality, agricultural jobs comprise only ten percent of rural employment. Manufacturing makes up 17 percent of the rural employment base. Over 60 percent of farm families' incomes come from non-agricultural sources. **Rural America is far more than farmland.**

The non-farm rural economy has suffered through its share of troubles during the 1980s. International competition, lack of a well-trained workforce, poor infrastructure and limited government programs have contributed to rural America's downward spiral. Since 1979 the nonmetropolitan employment rate has grown at only 38 percent of the metropolitan rate. Although 25 percent of the nation lives in rural areas, these areas have only 20 percent of the nation's jobs. In 1987, rural unemployment reached 7.9 percent, a full two percentage points higher than the national average.

A struggling economy and poor quality of life are often interrelated, and rural residents continue to suffer. While 20 percent of the urban population lives in poverty, 34 percent of all rural people are poverty stricken. Infant mortality is up to one third higher in rural aras than the national average. The dispropoprationately high rural elderly population suffers through inadequate medical care. Schools struggle to provide basic educational needs to the upcoming workforce.

Much of small metropolitan and rural America's infrastructure is inadeuqate. Public investment in the maintenance and construction of roads, bridges and other public works has declined drastically in the last decade. Federal grant and loan programs for community and economic development have been cut by 74 percent since 1980. As federalism has come to mean federal inaction, rural America has come to rely more and more on multi-county organizations for answers to its development needs.

PLANNING AND DEVELOPMENT ORGANIZATIONS: A KEY TO LOCAL ECONOMIC GROWTH

Regional planning and development organizations, known variously as economic development districts, regional councils, councils of governments and the like, provide planning, technical assistance and services otherwise unavailable in most rural areas. Elected officials of rural governments serve on a part time basis and have no staff for economic development. They depend on these regional organizations for professional assistance. Most multi-jurisdictional organizations are multi-functional. Many administer job training programs, elderly services, and other valuable programs according to the region's needs. Frequently covering areas of six to eight counties, regional development organizations assist both local governments and the private sector. For more than 20 years, these institutions have exemplified the public-private approach to economic and community development.

Regional development organizations provide the mechanism by which governments, businesses, and citizens may join together and take action to improve the economic conditions of their region.

Local elected officials, leaders from business and labor, and citizen representatives including minorities and the poor comprise the board of directors of these public-purpose institutions. Local government involvement insures a vehicle for long term effort. Private sector and citizen participation guarantee that regional initiatives reflect the grassroots interests of the community at large. Regional development organizations serve small governments, small businesses, and community groups.

These multi-county development organizations are the catalysts for strategic planning in rural America. Development practitioners examine the local economy and analyze prospects for growth. Based upon accessibility, natural resources local workforce, and many other factors, these organizations establish an overall economic development plan. Initiatives may include infrastructure construction and rehabilitation, local entrepreneurship, current business expansion, and plant location depending upon the relevant factors. Working with local communities, the development organization constructs the plan and sets it in motion.

Through technical assistance, regional organizations provide the knowledge and expertise required to create conditions for economic growth. They often furnish the needed direction and assistance for a struggling community or an inexperienced small business owner.

The remarkable diversity of rural America dictates that for rural development to be effective, it must be locally-based. In setting goals and making decisions, practioners must be responsive to the local economic and social environment as well as the global framework. Communities must build from the local level with the combined resources of all levels of government and the private sector. Regional organizations provide the framework to coordinate development at the local level.

Regional planning and development organizations are an essential resource for rural development. Successful economic development requires not only access to accurate information -- local, state, federal, and global -- but also the presence of professionals who can translate such knowledge into action. Through the years, these organizations have become an integral part of the "institutional infrastructure" of rural America.

FEDERAL PROGRAMS FOR RURAL DEVELOPMENT

Public investment is a way to encourage and retain private investment. Government programs must be a part of the solution to rural economic problems. Local development officials have identified strategic planning, infrastructure improvement, and small business assistance as the principal tools needed to foster strong rural economies. In the past eight years, federal investment in these priority activities has been dramatically reduced. Despite limited resources, regional planning and development organizations are continuing to serve local governments and the private sector.

The Economic Development Administration (EDA), within the Department of Commerce, was created in 1965 to promote economic development in distressed areas. EDA has encouraged the formation of 280 economic development districts across the country, providing them with small matching development grants.

These funds are extremely useful for rural businesses, which face systemic barriers in obtaining financing. Locally controlled, RLFs service the community at the grassroots level.

The Appalachian Regional Commission (ARC) is a unique partnership between federal, state and local government for rural economic development. The federal government and 13 states work together to provide this deeply troubled region with opportunities to create a better life. ARC has established 69 local development districts to coordinate federal, state and private sector efforts at a grassroots level.

The Small Business Administration (SBA) is another important source for rural economic development. Through locally controlled certified development corporations -- often parallel institutions to development organizations -- SBA guarantees fixed asset loans to small businesses struggling to obtain capital. Other SBA programs include working capital loan guarantees and management assistance for small businesses.

The Farmers Home Administration (FmHA) administers a water and sewer loan and grant program as well as a community facilities loan program. FmHA also provides a business and industry loan guarantee program. Although FmHA's rural development planning and technical assistance program remains authorized, the program has not been funded in recent years.

Under the Community Development Block Grants (CDBG) program, the Department of Housing and Urban Development (HUD) provides funds to states, cities and urban counties for locally determined priorities. Acknowledging the need of smaller communities to address their particular concerns, HUD allocates 30 percent of CDBG funding for small cities and rural areas. These grants are used for infrastructure improvement and housing assistance.

-end-

Senator **Conrad**. All of the testimony has been excellent. We will leave the record open for 1 week for additional written questions, and additional comments from witnesses.

Thank you all very much.

With that, we will close this hearing.

Senator **Baucus**. Thank you Mr. Chairman.

[Whereupon, at 11:10 a.m., the subcommittee recessed, to reconvene at 9:40 a.m., in room SR-332, Russell Senate Office Building, Tuesday, May 16, 1989.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF
THE EDISON ELECTRIC INSTITUTE

ON

RURAL DEVELOPMENT

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT AND RURAL ELECTRIFICATION

COMMITTEE ON AGRICULTURE

UNITED STATES SENATE

May 11 and 16, 1989

Mr. Chairman and members of the Subcommittee, the Edison Electric Institute (EEI) appreciates the opportunity to submit this statement of our views on rural development and the important legislation on this subject you will be considering.

EEI is the association of electric companies. Its members serve 97 percent of all customers served by the investor-owned segment of the industry. EEI members generate approximately 77 percent of all electricity in the country and provide electric service to 73 percent of the nation's ultimate electricity customers.

EEI commends the full Committee, this Subcommittee, and your colleagues working on the Bipartisan Senate Task Force on Rural Development for your initiatives. The nation's investor-owned electric utilities provide electricity and extensive economic and community development services throughout rural America, and we share fully your commitment to rural development.

Mr. Chairman, during the Subcommittee's first day of hearings, you noted there are 62 million rural Americans. Of these, approximately 25 million are served by Rural Electrification Administration (REA) borrowers. Interestingly, this suggests, and a recent EEI survey of its members appears to confirm, that non-REA borrowers, primarily investor-owned electric utilities, supply power to the remaining 37 million rural citizens, or about 60 percent of all rural Americans (i.e., those living in non-metropolitan communities of 20,000 or less, or in unincorporated areas). Investor-owned electric utilities are the driving force behind rural development in many smaller towns with populations of fewer than 1,500. Preliminary results of our survey show we serve at least 6,850,000 rural Americans living in 9,831 small towns. Thus, we too have a large stake in rural America.

Investor-owned electric utilities have an established and active track record of participation in rural development. For example, last year the Alabama Power Company funded design and engineering studies for industrial parks in two rural Alabama communities (Jackson and Talladega). In addition, since the mid-1970s, the company has been an active participant in Auburn University's Rural Development program. Alabama Power provided original planning in 1981 to Auburn to establish an ongoing Spring Workshop for civic leaders involved in community development. That effort has subsequently been augmented by an Intensive Industrial Training course, administered by the Auburn Extension Service. Moreover, Alabama Power underwrites a training program for community economic development volunteers.

In Indiana, as another example, investor-owned utilities have worked with state and local leaders to successfully promote rural economic development for a number of years. Public Service of Indiana (PSI), state, and local leaders have joined together to create 7,000 new rural jobs within its service territory. The utility has played a role in helping to bring such companies as Kobelco, Fujitsu Ten, INTAT, Charming Shoppes, Automotive Industries, Technotrim, Happico, Sherwin-Williams, and Nucor Steel to rural Indiana. These new arrivals have brought substantial development tohe rural infrastructure.

In the Nucor Steel case, the company is preparing to melt and produce steel on a site that was a corn field less than two years ago. Nucor has invested about $250 million already, and will employ 500-600 workers, mostly from rural Montgomery County. PSI assisted the location effort by providing aerial photography, site selection, inspection and engineering, soil samples, physical and human infrastructure analyses, and demographics. Additionally, PSI helped Nucor by purchasing an option on the land for the site, and closely coordinated the effort with all government officials involved. Separately, PSI recently negotiated economic development rates with its wholesale customers, including rural electric cooperatives and municipalities, which also serve rural Indiana.

Arkansas Power and Light Company's (AP&L) ties to rural Arkansas were forged in the early days of providing electricity to farms and providing an infrastructure to its rural citizens. That partnership continues today. Much of its service territory encompasses the farms and small communities that make up this state, where the principal industry remains agriculture.

AP&L works in partnership with the agricultural community on various projects, including community development and educational improvements for rural schools. In 1987, AP&L established a five-year, $15 million program called Teamwork Arkansas/Missouri. This economic development program has already resulted in more than 8,000 new jobs. The program, grants, and funds are made to many predominantly rural communities to upgrade water and sewer facilities. These facilities are essential if these small communities are to maintain and support surrounding farm life and related agriculture endeavors. Grants are also made to many rural schools that help improve math and science curriculum.

Other AP&L rural development activities include: infrastructure grants for extending roads, sewer and water lines to industrial sites; video profiles for promoting communities to industrial prospects; funding marketing assessments for communities in eastern Arkansas and southeastern Missouri to identify their strengths; an industrial team-training program for local personnel in recruiting and working with existing and potential industries; and scholarships to further economic development training in rural areas.

Yet another EEI member company, Public Service Company of Colorado (PSCO), has been involved in economic development since the early 1960s. PSCO is the only electric utility in Colorado with a major state-wide effort in the area of economic development. As such, it maintains a close working relationship with the Governor's Office of Economic Development, the International Trade Office, and the Department of Local Affair's Rural Development Office. PSCO also takes an active role in the Economic Developer's Council of Colorado (EDCC).

Currently, Public Service of Colorado is the coordinator of a new program marketing the rural areas of Colorado through a targeted, direct mail marketing effort. This will involve coalitions of two or more rural counties and is funded 50 percent by PSCO and 50 percent by the coalitions. Other PSCO programs include: helping find tenants for vacant manufacturing facilities; providing economic and community development training in Eaton, Milliken, Evans and Ault; and helping the people of Alamosa find needed venture capital.

Nearly 48 percent of South Carolina Electric and Gas (SCE&G) Company's customers live in rural areas of 1,500 or less. Last December, the company contributed to local match requirements to improve the town of Saint Matthews' water and sewer systems. At the same time, SCE&G also leveraged state, local, and federal funds to improve the water systems of Calhoun Falls, North and Williston.

Overall, the company leveraged $88,000 to assist in achieving a $7.8 million investment in rural South Carolina. In addition, the company provides educational scholarships for students within its service areas.

Mr. Chairman, these are but a few examples of investor-owned electric utilities' role in rural America. We believe they are representative of the effective grassroots partnerships existing throughout our service territories. Relationships like these are being forged by rural Americans, rural electric cooperatives, municipal electric and investor-owned electric utilities. As part of a 1988 survey of our membership, 55 percent of the respondents described their business markets as predominately rural. To help develop these rural areas, EEI compiled the "Location Assistance Directory" which provides easy access to over 240 economic development executives across the country (attached).

Impressive as these efforts have been, more needs to be done. As Senator Lugar has noted, rural unemployment remains substantially above the metropolitan rate. Nationally, 1988 unemployment was 5.1 percent, yet rural unemployment was 6.9 percent. In the past, and certainly in specific rural locations today, the dichotomy is wider still.

To assist in these efforts, EEI believes that funds for economic development must be available to all rural communities and business entities, unrestricted by the historic borrower preference provisions of the Rural Electrification Act. We are concerned that the availability of zero and low-interest loans and grants exclusively to REA borrowers provides an unfair advantage in stimulating rural economic development. Rural development requires everyone's full effort. With this in mind, EEI filed comments with REA in connection with its proposed rules on the Rural Economic Development Loan and Grant Program (7 CFR Part 1709, Subpart B). These comments are appended to this statement, and we ask they be included in this hearing record.

Investor-owned electric utilities' substantial rural presence, their existing economic development efforts, and their often close proximity to REA borrowers' rural/suburban service territories, are today a reality. Historic REA borrowers are not, therefore, the only complete conduits for rural development. Thus, EEI supports a modern national rural development policy, unrelated to the provider of electricity. Such a policy would provide fair and equitable benefits to all customers and taxpayers in rural areas. The challenges facing rural development are too pervasive to narrowly focus the solution on only 40 percent of rural Americans.

In this regard, we note that President Bush's recently formed Working Group on Rural Development headed by Secretary Yeutter will include representatives from most departments within the federal government. We agree that a government-wide initiative is needed. Rural development requires full participation in all needy rural areas, not just in limited locations. We also believe any additional resources committed to rural development must be leveraged with private sector assistance, unencumbered by a new bureaucracy.

Successful rural development needs to involve cooperation with rural customers, states, counties, towns and other permanent institutions committed to achieving long-term improvements in their communities. Governments have a comprehensive array of resources which can be brought to bear for the benefit of rural development. At the national level, nearly every federal department and agency has an important role. We generally agree with the National Governors' Association policy (G-2) that any federal effort to regenerate rural America needs to be coordinated with the Governors. In fact, Governors and state economic development agencies already have an appropriate structure to administer rural development. Investor-owned electric utilities' experience in rural development suggests that is sound strategy.

When establishing a rural development program, it is prudent to utilize existing public programs or agencies that have expertise in all aspects of economic and community development or similar functions, fine-tuning them to achieve specific objectives. When crafting private sector participation, we encourage an inclusive, rather than exclusive, strategy. As previously stated, leveraging public funds with private investments is a creative and cost-effective means to achieving rural development.

In conclusion, the investor-owned electric utility industry is proud of its growing partnerships with rural Americans. We welcome and support creative, flexible, and inclusive strategies that will permit our segment of the utility industry to continue to be aggressive and willing partners in all aspects of the rural renaissance you are forging.

Mr. Chairman, we appreciate the opportunity to submit this statement. EEI and its member companies look forward to working with the Subcommittee and Committee on this important issue.

(Attached letter follows:)

H. J. YOUNG, Senior Vice President

EDISON ELECTRIC INSTITUTE The association of electric companies

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December 28, 1988

Mr. Blaine Stockton, Jr.
Assistant Administrator
Management, Rural Electrification
 Administration
Room 4063-South Building
U.S. Department of Agriculture
Washington, D.C. 20250

Re: Proposed Rule, Rural Economic Development Loan and Grant Program; 7 CFR Part 1709, 53 Fed. Reg. 43442 (October 27, 1988)

Dear Mr. Stockton:

The Edison Electric Institute (EEI) submits written comments on the above-referenced notice of proposed rulemaking. EEI is the association of investor-owned electric utilities. Its members serve 97 percent of all customers served by the investor-owned segment of the industry. They generate approximately 76 percent of all the electricity in the country and serve 73 percent of all ultimate customers of the nation.

EEI welcomes the opportunity to provide comments on the policies, requirements and procedures covering the Rural Electrification Administration (REA) Rural Economic Development Loan and Grant Program. EEI and its members believe rural economic development and job creation programs are a major component of the strength of the overall U.S. economy. Historically, the investor-owned electric utility industry has worked closely with American industry in meeting the social and economic needs of the communities and areas it serves. Moreover, the investor-owned sector has been and will continue to be active in rural development. In a recent survey of EEI members, 55 percent of the respondents described their business market as predominantly rural. The industry's economic development programs are aimed at new productive employment opportunities associated with new and expanded manufacturing and service industries, agricultural improvements and aiding existing businesses. Broader innovative programs and activities are being designed and tailored to meet the changing and dynamic needs of a developing business.

EEI believes that funds for rural economic development should be available to all business entities and not be restricted by the borrower preference provisions of the REA Act. EEI is strong in its belief that the purpose of the rural economic development loan and grant program, i.e., rural development, supersedes the preference provisions and whatever corporations, etc. will promote rural development should receive preference in this rulemaking. Within the context of this rulemaking, EEI believes the REA has taken the first step by outlining policies, requirements and procedures for borrowers of REA funds. Because of the history of cooperative preference in REA loan programs, EEI is concerned that the availability of zero interest loans and grants will provide rural electric cooperatives an unfair advantage. Accordingly, EEI believes REA should expand the procedures and requirements to ensure that the funds are promoting rural economic development and not promoting rural electric cooperative development. In specific, EEI has several recommendations outlined below which are organized by section corresponding to the proposed rule.

II. SPECIFIC COMMENTS

A. 1709.10 Purpose

REA appropriately interprets the purpose of the zero interest loans and grant program to be for promoting rural economic development and rural job creation. EEI is concerned that many preference "Borrowers," as defined by REA, may use the loans or grants for developing businesses that are in suburban or urban areas that have developed from rural areas. As stated above, EEI members consider rural economic development to be an important strategic component of their service territory economic wealth and well being. To fulfill the Congressional intent, fostering rural development (7USC940C), preference in providing loans and grants should be given to any electric utility that would enhance rural economic development and job creation.

B. 1709.11 Policy

REA proposes that borrowers should be encouraged to use the Rural Economic Development Loan and Grant Program to promote rural economic development and job creation projects that are based on sound economic and financial analysis (53 *Fed. Reg.* 43444). (Emphasis added.) EEI believes REA should require that the proposed projects be based on sound economic and financial analysis. Based on the proposed language, a project that is based on unsound economic and financial analysis would still be eligible for a zero interest loan or grant.

EEI would like to volunteer its services as a liaison to the investor-owned segment of the industry to coordinate REA rural economic development programs.

C. 1709.16 Selection of Recipients of Zero Interest Loans and Grants

In the preamble to the proposal, REA states that it did consider including an objective ranking procedure based on assigning a given number of points for each of the selection factors. However, REA did not include a ranking procedure in the proposal. EEI strongly encourages REA establish a ranking procedure that will ensure the funds for this program are used for rural development. To this end, REA should place a greater emphasis (ranking or points) to certain selection criteria outlined in the proposal, rather than relying solely on the "borrower" preference provisions.

The following selection criteria, as proposed by REA, are listed in order or ranking of importance:

1. "Projects that will be located in Rural Areas or will provide greater benefit to Rural Areas than other areas."

   This is clearly the primary purpose of the Act.

2. "A comparison of the number of jobs that the Project will create in rural areas to the amount of grant and zero interest loan funds requested."

   Job creation is second only to economic development in the Act.

3. "The amount of supplemental grant or loan funds provided for to be provided to the Project from private sources, state and local government sources, federal government sources, the Borrower(s) or other sources of funds."

   With the need to reduce the federal budget deficit, it is important to leverage, to the maximum amount feasible, federal funds with matching or supplemental private funds. In addition, the incorporation of private sector support should ensure that the project has been developed using "sound economic and financial" analysis.

4. "Commitment from the owner(s) of the Project that the Project will be a Demonstration Project."

   EEI agrees with the REA statement in the preamble that the nature of this program leads naturally to encouraging demonstration projects. Demonstration projects also will stimulate innovative projects which may otherwise not be developed.

5. "A comparison of the unemployment rate in the rural area where the Project will be located to the state and National unemployment rates."

6. "Project that in REA's best judgment have the greatest probability of success as measured by long-term job creation or retention and rural economic development."

7. "A comparison of the Per Capita Personal Income in the rural area where the Project will be located to state and National income levels."

8. "Projects that have received the endorsement of Certified Development Companies approved by the U.S. Small Business Administration."

9. "Projects that have received the endorsement or sponsorship of businesses, local business and community leaders, Associated Utility Organizations, or local, state or federal governmental organizations."

10. "Projects that lead directly to improving marketable skills."

    Although projects that lead to improving marketable skills could lead to additional job creation, there should be an incentive for the marketable skills to remain in the rural area.

11. "Projects that will be organized or reorganized on a not-for-profit basis or to provide full or majority Employee Ownership.

Although EEI agrees that projects that are not-for-profit can be useful, we are not sure how it relates to rural economic development or job creation.

D. Limitation on Use of Zero Interest Loans and Grant Funds

EEI supports REA in the proposed restrictions on the use of REA loans and grants for economic development. In addition, EEI believes other restrictions are necessary to properly fulfill the purposes of the loan and grant program. These include the following:

* Funds cannot be used outside of rural areas as defined by REA. This is clearly the purpose of the program and REA should be much more specific on the limitation.

* Establishment of a limit on the use of the funds for the purpose of purchasing financial instruments. An example would be the purchase of Industrial Revenue Bonds (IRBs) for a project or customer. Congress never intended the taxpayers to subsidize speculative business endeavors.

* Establishment of a limit on the use of the funds to construct speculative buildings. Congress did not intend the funds to be used to finance or construct speculative buildings as a method to entice business to locate in one area over another.

* Establishment of a limit on the use of the funds for incentive rates to businesses. It is inappropriate for funds from REA to be used to subsidize the rate a business pays for electricity.

E. 1709.19 Size of Zero Interest Loans and Grants

EEI agrees with REA's establishment of a minimum loan or grant at $10,000. EEI would also support REA establishing a maximum amount of a loan or grant. Congress indicated that the funds for economic development were to be used for "start-up costs, incubator projects, and other reasonable expenses for the purpose of fostering rural development" (9USC940C). (Emphasis added.) All of the indicated projects are seed projects that require additional private sector funds. Likewise, REA proposed a selection criteria for a project based on supplemental private sources, or other sources of funds. Therefore, it would be consistent for REA to establish a maximum amount of a loan or grant at some percentage of the total project cost. If matching funding is desired, the percentage could be set at 50 percent of total project cost.

F. 1709.22 Transfer of Employment or Business

EEI strongly supports REA including a restriction on transfer of employment or business. However, EEI is deeply concerned about REA's use of the modifier "primarily" and urges REA to specify that transfer of existing employment or business activity from one area to another be prohibited.

Congress did not intend to have rural economic development or job creation at the expense of urban or suburban economies or other rural economies. If a transfer of existing employment or business activity were to occur as a result of this program there would be no increase in economic development or job creation.

EEI appreciates the opportunity of filing comments on this rulemaking. EEI and its members have been active and will continue to be active in rural economic development. However, we are strong in our belief that companies, both RECs and IOUs, should compete on a level playing field to the benefit of the overall economy.

If you have any questions or need additional information, please contact Joe Van den Berg, EEI's Director of Technical Services, at 202/778-6551.

Very truly yours,

H J Young

H. J. Young

HJY:jvp

RURAL DEVELOPMENT ISSUES

TUESDAY, MAY 16, 1989

U.S. Senate,
Subcommittee on Rural Development
and Rural Electrification of the
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room SR-332, Russell Senate Office Building, Hon. Howell Heflin (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Leahy, Heflin, Harkin, Conrad, Daschle, Baucus, and Cochran.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator Heflin. The subcommittee will come to order.

The 1980's have not been good for rural America. Its declining economic and social conditions have been well documented. These rural problems cut a wide swath across our rural communities, and center on issues of jobs, community facilities, and human development.

We are working on broad range legislation that will affect rural hospitals, water systems, telecommunications, firefighting, infant mortality, and new businesses on rural main streets. We know what the rural problems are and generally what needs to be done about them.

Today we continue seeking ideas from people on the firing line at the local level in rural America and from representatives of local rural agencies and organizations. We want recommendations for programs that address rural economic development, community facilities, and people development problems. And we want to know how these programs should be administered.

We will be looking for ways to strengthen organizations and agencies already working on solving rural America's problems. We want to build on programs that we know are working well, like the rural electric cooperatives, regional economic development agencies, and the Cooperative Extension Service. We want to fix only those programs that need fixing, and not create vast new bureaucracies.

We are delighted we have a panel this morning, Mr. John Garrett, National Rural Water Association, Montgomery, Alabama; Mr. Chris B. Page, executive director, Economic Development Council of Northern Vermont; Mr. Robert Wales, president of the Mississippi Association of Conservation Districts; Mr. Alex Curtis, president and CEO of the Farmers Grain Terminal in Greenville, Mississippi.

If that panel would come forward, we will be glad to hear from them. We will start with Mr. Garrett. We will ask you all to summarize and limit your remarks to 5 minutes. Your full prepared statement will be entered into the record.

Senator Conrad's prepared statement will be entered in the hearing record, without objection, at this point.

[The prepared statement of Senator Conrad follows:]

OPENING STATEMENT
SENATOR KENT CONRAD
RURAL DEVELOPMENT HEARING
May 16, 1989

Thank you, Mr. Chairman. It is with great pleasure that I join you at today's hearing and in welcoming our distinguished witnesses.

I want to begin by recognizing you, Senator Heflin, for the strong leadership you have exercised in bringing rural development to the forefront of the legislative agenda in the 101st Congress. As Chairman of the Rural Development Subcommittee, your guidance has been vital to the progress we have made so far.

And we have made some great strides this session. The Senate Rural Development Task Force now has 33 members, many of whom are Chairmen and senior members of key Committees. The Budget Committee has included $300 million in budget authority, $100 million in outlays, specifically for rural development. And, Mr. Chairman, through efforts you and others are making to hold hearings, we are spreading the word about this important cause.

As I have listened to people of my State, my colleagues and experts in this hearing room and across the country, one theme seems to be reoccurring. And that is, partnership.

** At the local level, community members must be partners in any development effort. Community investment and commitment are vital to the prosperity of all local initiatives.

** State and county government cooperation, in partnership with the Federal government, is key to our success. We must work together to target economic needs.

** All levels of government must join hands with the private sector in fostering job growth in distressed rural areas. Data processing and other service jobs can easily be located in rural America where companies will find reduced costs and a favorable business climate. And that's not to mention the quality of the work force -- low turnover, low absenteeism, strong work ethic and a strong educational background. A solid partnership built between the government and private industry would boost employment, income and tax bases in rural areas.

In keeping with the "partnership" theme, we are introducing the "Rural Partnerships Act of 1989" this week. This multi-faceted package will address many pressing rural needs. In addition, I am introducing the "Rural Investment Fund Act" to provide capital for small business development in rural areas by establishing a revolving loan fund with a private sector match. Increasing capital availability for business creation, expansion and retention will boost rural economies and spur job growth.

Each of us, as citizens of this country, is a partner in rural vitality. The need for economic health in rural America cuts across all barriers -- it's as important to urban America as it is to nonmetro areas; to the older generation as well as the young; development is needed in the North as much as in the South; in parts of New York as well as New Mexico.

Together -- in partnership -- I am convinced we can make a difference.

STATEMENT OF JOHN GARRETT, MEMBER, ALABAMA RURAL WATER ASSOCIATION, ON BEHALF OF THE NATIONAL RURAL WATER ASSOCIATION, MONTGOMERY, AL

Mr. GARRETT. Mr. Chairman, I appreciate the opportunity of being here and discussing with you and other members of the subcommittee matters that deal in rural America today. Certainly we have many of them. I think one that has been thought of as where we are and where we are going. And I am about the most rural something from Alabama, and after all, why then somebody and sometimes they call me country. And I usually know that from being from Alabama, why then you know about where I stand.

However, I would like for these people to understand that you in Alabama, a Judge, was recognized and appreciated for your fairness in what you did. You had a fellow one time that was before you who was being tried for manslaughter. And you sentenced him, and he said that is the fairest judge I ever saw in my life. He is so nice. Said he gave me 89 years and he could have given me life. [Laughter.]

And so we know that we respect you and we appreciate you. As you said earlier, I was representing today the National Rural Water Association of which I am a member of the board and also the Alabama Rural Water Association, and we are working with the rural people there. You have, and the department here has supported the programs in the past 12 years in order to assist these small water systems in being able to provide good, clean, wholesome water for the people that is out there.

There have been many changes in rural America in the past 25 years. First is, well, we used to think of the family size farm. We tried for years to identify or to tell what is a family farm today. Well, it has been hard to do that. During the Depression, why then we know that the people from the rural area moved into town because they had to get somewhere to get a job. We all used to think of people in the rural areas as being farmers. That is not the case today. We know that there is two things that the clergy will approve, two types of gambling that the clergy will approve of, and that is farming and marriage, two of them. We know now that they are bad. Now after these people moved into town, well, then they wound up finding that they needed to go back home, back to the rural areas. So we now have the urban sprawl, and that is these people work in town and live in the country. They love the fresh air that is out there because it is not contaminated, and that is where we are.

As a result, we have found in rural development many bedroom communities that have come up. Every community out here is not an industrial site. We have many communities that people just live there. They enjoy it because of the rural nature that it has, and it is just as important that we have those communities as it is if you are going to build a big industry there. And we need to provide the facilities that is necessary for it.

We have to look at our rural water program as being one that is made possible by the Farmers Home Administration. Over the period of time for the last 25 years, starting in the 1960's, funds have been made available to the tune of about $9.8 billion in loans and about $3.1 billion in grant programs, which made possible the bringing of good, clean, wholesome water, running water in rural areas.

I know when we started talking about putting running water out in the country, people would look at you like you were coming unscrewed because they did not think you would be able to run water out there. The only running water they knew of is when you had a bucket and you run down to the spring to get it.

But now with the Farmers Home Administration appropriations, why then it was possible to put water in the rural area, and it pretty well has moved along, taking our own State, Judge. We have about 47 percent of the people in Alabama that live in rural Alabama, and about 83 percent of them have running water today. But there is about 17 percent that still do not have it. And we have to find a way—someway to get them to do that.

Today we have approximately 50,000 rural water systems in America. We supply drinking water to most of our nonmetropolitan citizens. Many systems are over 20 years old and in need of upgrading and repair. When the systems were put in back years ago, why then they put in pipe size just big enough to take care of the need at that time. And so many of our systems are having problems because the pipes are not big enough.

Judge, does that red light mean I have been here too long?

Senator HEFLIN. Well, it means you have 1 minute to wind up.

Mr. GARRETT. Is that what it means? You better tell me about these things because—but anyway we find that they need upgrading. We find many systems have only one well. Their storage facilities are inadequate. People tell, EPA says that you need to have 24-hour storage, and I would say that there is very few systems throughout the country that have that much. And as we move forward with it, why then there is several conditions that must be met before there can be any development in rural or urban areas, and that is transportation, electricity, telephone, gas, water, and wastewater or sewage. Now then, all the others, transportation, we know about electricity with the private and the REA, telephones, and gas. But water and sewer is going to be provided by the local community if we get it.

And it is important that we get it. EPA today is requiring more testing of water to ensure its purity, and the additional testing will cost money and require better trained operators. The Rural Water Association program, in effect, throughout the country provides an invaluable service in meeting the many challenges that they face. This program needs to be continued and expanded. We would like, if possible, for the Congress to give consideration to making money available to the rural water system in the way that the systems and the users will be encouraged to absorb a reasonable amount of the cost

And that way, why, then we can go ahead and get many of the jobs done. This could be done with low interest rates and some participation. Wastewater is a problem. We are finding that wastewater throughout the country today, that we need to do something because it is necessary to prevent contamination. The EPA has made available to the States a revolving fund authority, and turned over the funds that they had and the States matched it. We think that is a good program. In Alabama, at the present time, they are issuing the first issue of bonds to be able to make it work.

Alabama legislature passed a water supply authority in which they can issue tax exempt bonds or taxable bonds, but they do not have any seed money, we call it, that is money in there to assist in being able to issue the bond without insurance. Somehow we need to get some funds in there. Let me wind up by saying that three basic essentials for human existence is the air we breathe, the water we drink, and the food we eat. You can live 4 minutes without air, about 4 days without water, and about 40 days without food. Thank you.

Senator HEFLIN. Thank you, Mr. Garrett. Appreciate it. We will now hear from Mr. Page.

[The prepared statement and attached table, Circuit Rider Technical Assistance Report, of Mr. Garrett follow:]

STATEMENT OF JOHN GARRETT, MEMBER, ALABAMA RURAL WATER ASSOCIATION ON BEHALF OF THE NATIONAL RURAL WATER ASSOCIATION

Mr. Chairman, thank you for the honor and opportunity to testify before your Committee today. You and your distinguished colleagues have been the most consistent and valuable supporters of our rural citizens and of protecting and sustaining our rural communities. Today I represent the National Rural Water Association (NRWA), as a member of its Board of Directors, and the Alabama Rural Water Association in presenting testimony in support of sustaining and strengthening rural community water systems throughout America.

Over the past twenty five years the federal government, with the support of this Committee, has transformed the face of rural America through its Farmers Home Administration (FmHA) rural water and sewer grant and loan program. Approximately $9.8 billion in FmHA water and sewer loans have been made during this period and over $3.1 billion in grants. These funds have been available to groups of rural residents and to small rural communities which have no other source of long term financing for small water systems other than this program. These small water systems have a delinquency rate on loan repayments of less than 1% and many have generated their own funds to expand and provide safe water to a growing number of rural residents.

To realize how far we have come one only has to speak with the board members of the NRWA from each state. Over one-half of the members come from families that hauled water in their youth. A majority recount vividly the impact that clean water had on their lives as well as on the health of their families. The vast majority of Americans cannot conceive of living without clean, safe tap water and, as a result, without a reliable domestic water supply rural residents would have moved out of rural areas long ago. It is frightening to think of the circumstances we would be in in rural America without the 29,298 small water and sewer system loans provided by the FmHA program.

Our organization is made up of thirty four state rural water associations which have an active membership of over 8,500 community water systems. The effort to organize rural water systems within the states and into our national association is barely twelve years old. The reason we came together was that there was little or no assistance available to train part-time water system operators. At the same time, the federal government passed the Safe Drinking Water Act which is targeted toward small systems having little capacity for dealing with numerous EPA regulations. Small water systems realized, like others in rural America, that they needed to come together to help each other improve their operation if safe water was going to become available to more rural areas.

The most dramatic example of the results of these efforts has been the creation a rural water technical assistance circuit rider program in every state. This program provides a full-time person available to help small systems solve problems with their water treatment, billing and management, operations, water loss, EPA required testing and other problems routinely faced in their daily operations. Circuit riders are available to sit down and work with any small community system in a state on request. In some cases, the Circuit Rider, by simply dropping by to visit a part-time operator, is able to help identify unforseen problems and make suggestions on how to improve operations and avoid regulatory compliance problems. The impact of the program has been broad and deep. Attached is a chart of the number and type of visits made by the Circuit Riders in the various states.

A major reason for testifying today is to make you aware of the great strides that have been made in providing safe drinking water to rural families. This has been possible primarily because of the FmHA rural water and sewer grant and loan program. The other reason for our testimony is to outline some of our ideas on how these programs, with some improvements, might be utilized in the future to further improve the environmental quality of rural areas.

It is clear that there is a growing concern with the protection of the natural environment in rural areas. Each year, the testimony before the Agriculture Appropriations Committee reflects more and more warnings on the wide use of pesticides, the location of solid and toxic waste dumps and the failure to protect vulnerable open space areas. In turn, these concerns invariably come down to the impact that these pollutants have on the quality of the local water supply. As a result, many of our small water systems find themselves in the position of becoming actively involved in broader environmental protection issues in order to protect irreplaceable ground and surface water supplies. One example of this is the interagency agreement, urged by rural water systems, between EPA and FmHA which establishes a priority in the FmHA grant and loan funds to assist EPA identified out-of-compliance water systems. In addition, there is a variety of federal legislation and pending regulations on groundwater protection, leaking underground tanks, solid waste dump restrictions and, of course, the growing number of requirements under the Safe Drinking Water Act. The increasing complexity of these issues will be the major challenge to rural water in the next decade.

Strategy for Meeting Rural Water Needs

The most important program for improving the quality of rural water is the FmHA rural water and sewer grant and loan program. There will be very little improvement in rural water systems or in the rural environment without adequate funding to strengthen rural water and sewer systems. The vast majority of these systems do not have the legal authority or capacity to obtain long-term financing and without the FmHA loan program could not build new projects. Other small communities in low-income areas will simply not have safe water and sanitary sewage treatment without the grant program.

We urge the Committee to increase the authorization of the grant program from the present $154 milion to $300 million and the loan program from $340 million to $600 million. There are over $800 million in loan requests that are in the field and unprocessed and over $300 million in grant requests. These numbers would be even greater if FmHA District offices did not have to discourage applications because of the lack of existing funding. We are asking for this increase because we believe that the growing demand for improved environmental quality in rural areas from the Environmental Protection Agency and other environmental groups will make this program an increasingly high national priority which will be reflected in the demand for larger appropriations. However, we will not be able to be in a position to receive new appropriations if this Committee does not increase the present authorization. The FmHA grant and loan program is the core program available for small communities to utilize to solve a variety of environmental problems and an increase in its authorization levels is critical.

Secondly, we urge this Committee to establish circuit rider programs for waste water systems and for groundwater/waste disposal protection. We have initiated a demonstration waste water circuit rider program in sixteen states - including Alabama. The demand for help from small waste water systems has far exceeded our predictions. All small sewage systems in Alabama and other states are required to be in compliance with the federal Clean Water Act this year and there has been little or no on-site technical assistance to help with this compliance. The vast majority of sewage systems that have not met Clean Water Act standards are in rural areas which cannot afford the increased monetary fines and growing regulatory demands that are forthcoming from EPA.

We also request that the Committee consider establishing a solid waste disposal/ground water protection circuit rider program. Small communities and rural water systems are continuously faced with issues of solid waste dump siting as well as other community decisions on placement of facilities in aquifer recharge areas. In addition, there are frequent questions asked on the issue of possible pesticide pollution. Having a circuit rider within each state to help small communities resolve their problems and protect drinking water sources would be a major step in protecting the rural environment for future generations.

There is one note of caution that we would like to inject into your consideration of this legislation. We realize that there is a growing interest by both the Rural Electric Cooperatives and the Federal Farm Credit Bank in helping rural water systems. We understand that there may be provisions in this legislation authorizing the increased participation of these organizations in rural water system assistance. Our Association and the state rural water associations welcome all the help we can get to improve rural water systems. However, we strongly believe that the FmHA rural water grant and loan program is the most viable and effective method for stimulating the greatest rural water system development for the funds invested. Having market rate funds available can help some larger and more affluent systems. Rural electric has always been a partner with rural water systems, but establishing a new federally assisted rural water program with different rules and financing arrangements could set an unneeded precedent in these tight budget times. Over the past few years, we have worked with Congress to assist the FmHA program to have funding available, but to require small communities and small water systems to use as many of their own resources as possible and to rely on federal help only when absolutely necessary. Any changes in this balance through the creation of new programs should be carefully analyzed. Until this is clarified we would recommend that there be a careful review of any use of federal appropriations to fund programs to assist rural water and sewer systems other than the FmHA rural water grant and loan program.

Thank you again for the opportunity to appear before this Committee. We are an eager partner in your efforts to pass stronger and better rural development legislation to help revitalize rural America.

(Circuit Rider Technical Assistance Report, October 1, 1987 through September 30, 1988, follows:)

CIRCUIT RIDER TECHNICAL ASSISTANCE REPORT
OCTOBER 1, 1987 THROUGH SEPTEMBER 30, 1988

STATE	TOTAL CONTACTS	OPERATIONS	MANAGEMENT	OTHERS
ALABAMA	534	159	375	00
ARIZONA	218	125	84	09
ARKANSAS #1	686	439	211	36
ARKANSAS #2	402	324	71	07
CALIFORNIA	339	231	54	54
COLORADO	498	479	19	00
DELAWARE/MARYLAND	163	31	74	58
FLORIDA	524	269	174	81
GEORGIA	434	199	231	04
IDAHO	321	270	47	04
ILLINOIS	505	419	61	25
INDIANA	451	279	160	12
IOWA	547	381	154	12
KANSAS	447	228	195	24
KENTUCKY	561	437	83	41
LOUISIANA #1	468	304	65	99
LOUISIANA #2	296	167	43	86
MAINE	390	254	100	36
MICHIGAN	463	243	220	00
MINNESOTA	453	269	170	14
MISSISSIPPI #1	657	212	351	94
MISSISSIPPI #2	314	173	54	87
MISSOURI	430	50	380	00
MONTANA	435	316	107	12
NEBRASKA	625	531	46	48
NEVADA	190	174	14	02
NEW JERSEY/CT/RI	169	101	58	10
NEW MEXICO	531	313	142	76
NEW YORK	422	418	04	00
NORTH CAROLINA	423	325	92	06
NORTH DAKOTA	477	300	156	21
NORTHEAST	436	371	36	29
OHIO	453	273	134	46
OKLAHOMA #1	461	219	212	30
OKLAHOMA #2	383	309	18	56
OREGON	466	303	54	109
PENNYSLVANIA	504	446	30	28
SOUTH CAROLINA	509	146	350	13
SOUTH DAKOTA	520	417	62	41
TENNESSEE	523	139	290	94
TEXAS #1	457	239	207	11
TEXAS #2	427	209	216	02
UTAH	497	375	50	72
VIRGINIA	485	385	82	18
WASHINGTON	241	208	16	17
WEST VIRGINIA	451	135	179	137
WISCONSIN	335	287	23	25
WYOMING	510	269	101	140
Total:	21031	13150	6055	1826

STATEMENT OF CHRIS PAGE, EXECUTIVE DIRECTOR, ECONOMIC DEVELOPMENT COUNCIL OF NORTHERN VERMONT, INC., ST. ALBANS, VT

Mr. PAGE. Mr. Chairman, I want to thank you for this opportunity to appear before this subcommittee. I am Chris Page. I am the executive director of the Economic Development Council of Northern Vermont. I am particularly pleased to be here because you had the opportunity to hear me a couple of years ago when we hosted you in Vermont, and I am just kind of amazed you would want to hear me a second time.

Senator HEFLIN. That is due to your Senator Leahy. He tries to take care of you folks up there in Vermont. [Laughter.]

Mr. PAGE. And I thought I had some impact.

We are very keenly aware and very appreciative of your leadership in trying to put together a rural economic development bill such as the Rural Partnerships Act.

ECONOMIC DEVELOPMENT COUNCIL

The Economic Development Council of Northern Vermont is a nonprofit corporation, the majority of whose directors are local elected officials. We also are an Economic Development District designed by EDA.

We are involved in revolving loan programs, business, industry, education, and agriculture and a variety of finance programs in our six county region in northern Vermont. We do believe that if regional economic development policy is to succeed, it must have the active support from the very inception of the constituent communities.

While business and education leaders can be influential in its implementation, rural areas depend upon boards of selectmen, city councils, and county judges to formulate a strategic vision for their communities. I have submitted to you some prepared remarks, and I will not take the time, I think, to summarize those here because much of the background information that you have is material that we have covered before.

Senator HEFLIN. I believe I was talking about Senator Leahy taking care of you, but he even wants to introduce you. You are such a great man that he wants to interrupt and introduce you right now. So go ahead and talk about this Yankee from Vermont. [Laughter.]

Mr. PAGE. And promise me, Senator, it does not cut into my 5 minutes.

Senator HEFLIN. Well, I am not going to guarantee that.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. I have very little authority around here, but one thing I can do is extend the time. That is about all they allow me to do in here, that and redecorate the room when I want to. I am, Senator Heflin, delighted to see Chris Page here. He has been working in rural development for over 8 years now, and is executive director of the Economic Development Council of Northern Vermont. Northern Vermont is up where it gets cold.

And, if you notice out in the outer office, there is a flag of Vermont. It was put in here and replaced a tobacco leaf. We do not raise much tobacco in Vermont. And Senator Heflin noted that for the record the first day of the meeting. And I said that was a very special flag. I had flown it over the South Pole literally and personally, flew it over the South Pole, coldest spot on Earth.

Senator Heflin pointed out for the record and for history's sake from there on that under those circumstances the flag probably felt right at home. [Laughter.]

But I would note, Mr. Chairman, that you know the Economic Development Council started about 11 years ago with an EDA grant from the Department of Commerce. It has since provided funding to sustain a whole diversity of businesses across six counties in northern Vermont, including training, which is a very, very important part of it. But I think the importance of this, in all seriousness, we talked about the rural development legislation down with some of your fine people in Alabama during the field hearings 2 weeks ago, and we talked about it out in North Dakota, in Mississippi, and other places. One of the examples I have used, Chris, is the success you have had in Vermont tying in the private sector and the public sector, and providing the tools and the training for people to get going. I do have to attend another hearing. I did want to stop in just briefly for this, just to point that out and to emphasize a lot of what I will be doing in rural development legislation this year is based on the experience of what we have seen and what has worked in Vermont.

I appreciate your courtesy, Mr. Chairman, in letting me drop in to introduce Mr. Page. And I ask that it not take away from Mr. Page's time.

Senator **Heflin**. Go ahead, Mr. Page.

Mr. **Page**. Thank you for your kinds words, Senator.

Senator **Cochran**. Mr. Chairman, may I welcome the members of the panel from my State of Mississippi who have joined us before we proceed with the testimony?

Senator **Heflin**. Well, if I had known we were going through all this welcoming, I would have given a 30 minute welcome to John Garrett. But go ahead, sir; that would be fine. [Laughter.]

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator **Cochran**. I appreciate the indulgence of the Chair.

Mr. Chairman, I am happy to join you in welcoming the members of this panel, particularly Alex Curtis and Bob Wales, who are here from my State this morning. I want to thank them for their being here. They are leaders in our State and outstanding citizens in every way. They both have experience that we can profit from in the development of policies that will help promote economic progress in our rural areas.

I know that they, and others, agree that probably the most important economic activity in rural America is agriculture, and we need to constantly be reviewing our agriculture programs to make sure they are meeting the needs of farmers and those who are affected by those policies. I think the perspective that they will bring will help us understand the importance of our doing everything we possibly can to help ensure the people who live in our rural areas have access to those attributes of American life that have set our country apart from all others.

And that those who live in rural America ought to be able to enjoy those same standards of life and living that people in more populated and urban areas are able to obtain in our society today. Thank you very much, Mr. Chairman.

Senator HEFLIN. Mr. Page, go ahead. You have heard now from Mississippi and Vermont. So two extremes.

Senator BAUCUS. Montana welcomes you, too.

Mr. PAGE. Thank you very much, Senator. I appreciate that.

Senator BAUCUS. A more brief welcome though.

APPLE CHIPS

Mr. PAGE. As I was saying rather than go through the written testimony that I have submitted and which you will have an opportunity to review, I thought this morning it would be interesting, if you will indulge me, to go through the Rural Partnerships Act with a very real project from a local area. And so this morning I am prepared to discuss for a few minutes a project that our Economic Development District has been developing with a rural county in northwestern Vermont, Grand Isle County. In order to set the stage for this discussion, you need to understand that Grand Isle County is really several pieces of shale on water. It is a series of islands and peninsulas connected by causeways.

Historically, it is an agrarian county with a small tourism industry with chronically high unemployment and a very weak tax base. I think I want to start this story with one of these. I know that an apple these days is not always the best thing to lay on a table before Ag Committee members, but it is important because much of Grand Isle county's agrarian background stems from the apple industry. We have many orchards there and they produce large volumes of apples for the State as well as for export.

Let us assume that there is no Rural Partnerships Act right now which there is not. Local elected officials in Grand Isle County have been searching for many years for a way to diversify their existing base using the resources that they have. Public sentiment for preserving the unique character had played an important role in this.

But at the same time, the local elected officials recognized a need to build a tax base and an employment base. The concept of working with those existing resources became part of the regional economic development strategy through the Economic Development District. We generated ideas working with local elected officials, with people in the ag industry, and a variety of local people, trying to come up with a reasonable way of building a job base in that area.

Had there been a Rural Partnerships Act, it seems reasonable to me that the National Rural Information Clearinghouse that you propose could have assisted in this process. I think it should not be limited strictly to Federal programs, but would include research from other regions, other organizations and could act as a catalyst for ideas. Those resources could have been made readily available to elected officials in our area.

The technical assistance program, conceivably, when used in conjunction with the local elected officials could develop a long-term strategy for a more multifaceted program or agricultural development. In any event, we did the research into the concept as much as we could using our existing three person staff and using the USDA labs wherever we could as well as State agricultural department referrals. It was very time consuming and it was often quite frankly dead-ended.

If there had been a Rural Partnerships Act in place, is it not possible that the extension service could have played a larger role in this very activity? If there were adequate resources and staff qualified to assess business development programs from strictly a business angle, then it seems to me that the extension service could have helped us with an integrated network for developing ag related businesses.

Unfortunately, as we pursued this project, we found very little enthusiasm among our extension service personnel because they told us it is a business project. Well, it is an agricultural business project. Where then would we find the necessary expertise to take a good idea to the point of serious analysis? That was going to be tough. We thought we had found a good idea. The good idea is here. It is called apple chips. Apple chips are fried slices of apple. They can be made very healthy using high quality oils. The Europeans are just starting to produce them. The Japanese are also starting to produce them.

They tell us, and we can pass these down for sampling, by all means. They tell us that there is a $75 million market in the United States annually for this product. And that comes from our research in dealing with major businesses who are involved in the snack food industry. Fortunately, for us the Economic Development Administration had a few dollars left in its professional service fund at the end of the year, and they were able to give us a small grant which we matched with funds from our Economic Development Department in the State of Vermont.

The extension service and the ag department had no money and were unable to assist us on these projects. Had there been a Rural Partnerships Act, perhaps there was potential for local technical assistance program using rural resources to create a business development opportunity like this. We now have a nearly complete feasibility study that says the product can be made in Grand Isle County, that there is a regional, even a national market of some $75 million, as I said, and potential for export at least to Canada, and the technology is readily available.

WASTEWATER

Our next problem: wastewater. We have one small water system and one wastewater system in the entire county. Limited Farmers Home and EDA resources as well as Environmental Protection Agency resources probably are not going to be helpful. It is a very highly competitive system and Grand Isle County has no "real bird-in-hand." Remember this is still a pilot project.

If there were a Rural Partnerships Act, is it not possible that if it were truly designed for very rural areas and small business creation that public facility grants could be made available for projects such as this? Now let us assume——

Senator HEFLIN. Do not leave out the Republicans.

Mr. PAGE. I know I am pushing the red light so I am moving through here.

Let us assume for a minute that we resolve our waste problem, perhaps with on-site systems as part of a development cost of this project. Now who is going to operate this facility? Our district will use its resources to identify investors, possibly through the creation of cooperative, of apple growers and other products because we have learned that other vegetable products can also be processed in this manner. But once again, there is an opportunity for extension specialists perhaps, and more importantly the local technical assistance program, to spring into action where consultation and training and business development could be very useful.

We have operated an entrepreneurial training program for general business development for several years. But we think that through a technical assistance program we could focus specifically on agribusiness and give local people the skills they need to operate a business such as this.

THE DOLLARS

Finally, the big issue: the dollars. How are we going to finance this operation? Probably through a combination of resources and they will probably be inadequate. The problem with most rural businesses is undercapitalization, as you well know. We will attempt to use community development block grant funds, our revolving loan fund, venture capital funds, maybe State industrial development authority funds, but there are drawbacks. It is a new venture. It is a volatile market. It is an unproven market, and it is in a rural location.

A Rural Partnerships Act that truly understands small business development will see a different picture. It will see an industry whose markets grew by 25 percent during the past 3 years. It will see a resource based product with potential for diversification, a scale appropriate to rural areas, and supportive local and regional governments, an industry sensitive to its environment, and finally jobs, good jobs, permanent jobs for rural citizens.

We think there is tremendous potential in this bill, and we are very anxious to see the various components of it come to fruition.

I thank you, Mr. Chairman, for being so gracious, allowing me to push the red light as far as I did. Thanks.

Senator HEFLIN. All right. Next is Mr. Robert Wales. Mr. Wales.

[The prepared statement of Mr. Page follows:]

Statement of

Chris Page, Executive Director
Economic Development Council of Northern Vermont, Inc.
St. Albans, Vermont

Before the

Committee on Agriculture, Nutrition and Forestry
United States Senate

on the

Rural Partnerships Act of 1989

May 16, 1989
Washington, D.C.

INTRODUCTION

Mr. Chairman, members of the Senate Agriculture Committee, I am Chris Page, Executive Director of the Economic Development Council of Northern Vermont, Inc. based in St. Albans, Vermont.

I would like to thank you, Mr. Chairman, for inviting me to participate in these important hearings; on behalf of the local elected officals and community leaders that I represent, I extend our thanks to the dedicated members of this committee for their unflagging determination to provide rural America with the tools for economic revitalization.

We are keenly aware of the intense effort put forth by this Committee in the crafting of equitable and productive development legislation to serve rural America. I am privileged to appear before you to discuss my twelve years of experience working with local officials in the rural development field and to comment on the Rural Partnerships Act.

ECONOMIC DEVELOPMENT COUNCIL

The Economic Development Council of Northern Vermont, Inc. is a not-for-profit regional organization. Its service area includes Caledonia, Essex, Franklin, Grand Isle, Lamoille and Orleans counties; this region, which represents one-third of the state's land area and twenty percent of its population, historically is its most economically disadvantaged.

At the request of our Governor and local elected leaders in 1974, the Council was designated an Economic Development District (EDD) by the U.S. Department of Commerce, Economic Development Administration (EDA). Acting as a regional forum for local governments, the Council instituted a development planning program.

Today, the organization, using the same strategic planning concepts, serves as a catalyst for a wide variety of local and regional economic development initiatives. Its Directors represent the interests of business, industry, education, agriculture and finance. More importantly, fifty-one percent are local elected officials, primarily citizen volunteers with full-time occupations outside government service.

By working cooperatively through the District, officials expand their capacity for development planning and regional program implementation. The District offers a working forum where the private sector and local governments can join forces to maintain and create jobs using public investments and extensive local participation.

This focus on the economic well-being of an entire region rather than individual jurisdictions is not unique to Vermont. There exists a network of established Economic and Local Development Districts in rural areas throughout the U.S. Supported by limited Federal and local funding, Districts provide a myriad of development services. Their small, versatile professional staffs help local people create jobs by making public investments that encourage private investment.

A RURAL DEVELOPMENT DELIVERY SYSTEM

Clearly, this Committee recognizes the need for a rural development delivery system that is capable of addressing a wide range of issues. We are pleased to find that Economic Development Districts are among those organizations considered to be eligible applicants for Rural Partnership Act funding.

We believe that if regional economic development policy is to succeed, it must have the active support from inception of its constituent communities. While business and education leaders can be influential in implementation, rural areas depend upon Boards of Selectmen, City Councils and County Judges to formulate strategic initiatives.

Further, it is the responsibility of those elected officials to provide and maintain the infrastructure network critical to rural economic development. We all have seen the rise and fall of agencies, organizations and public initiatives. Government, however, is our permanent institution for creating long-term social and economic improvement. And it is in working with organizations comprised of local officials that policy such as this Act can achieve its greatest success.

The Northern Vermont District, like its counterparts nationwide, provides a wide range of services to businesses, individuals and communities. These include strategic development planning, technical assistance to local governments on specific issues and aid to businesses in expansion, stabilization and recovery efforts.

The Rural Partnerships Act recognizes the need for a diversity of services in rural areas. Investment funds, technical assistance, infrastructure development, information services and emerging technology are topics of great concern to us. In my testimony today, I will focus on three of these issues:

Loan Funds

The proposed Investment Board with its Line of Credit and Revolving Loan Fund programs could be a powerful tool for many distressed areas. As you know, Mr. Chairman, our Development District has operated an EDA-funded RLF for over nine years, and it has proven to be one of our most successful small business and job generating tools. The northern Vermont RLF has assisted entrepreneurs who now market, on an international scale, goods ranging from Olympic-quality sports equipment to locally grown gourmet foods.

Orginally capitalized with $1,000,000, its 48-loan portfolio now represents investments of nearly $1.3 million which in turn have leveraged over $10 million in private capital, a ratio of nearly to 7:1. The 781 documented jobs created and retained by this program reflect a Federal cost of $1,280 each.

The RLF is designed to fill the capital gap unmet by traditional lenders. Numerous studies have found this unmet demand for capital is highest in rural areas, due, in the past, to conservative underwriting practices, restrictive lending limits and, more recently, to the advent of interstate and regional banking networks with limited local interests. Small, untested firms with substantial potential find it difficult to obtain capital in rural communities and are unable to compete in money center markets.

Organizations such as ours are designed with broad citizen representation; local elected officials (in Northern Vermont, our 27-member Board) provide the necessary accountability in administering the program as well as bringing a sense of strategic planning to the process.

A separate discount committee of seven business, professional and financial leaders removes actual lending decisions from the political arena while still reflecting the diversity and strategic vision of the Board. They combine local decision-making with knowledge of the borrower, business and market to structure loan terms that will enhance opportunities for success.

We have maximized the impact of our revolving loan fund by linking it directly to the regional development planning process managed by our local officials. Our loan policy, adopted in 1980, instructs the discount committee to give highest priority to those loans which will:

- provide training or re-training for local workers
- develop new export markets for the region
- assist threatened or declining industries in diversification
- improve environmental quality,
- provide infrastructure to create new development opportunities,
- encourage growth and development in regional centers.
- utilize indigenous raw materials

The RLF is successful in assisting such companies, and their growth provides new jobs and increased income for area residents. RLF borrowers are required to offer wages at least 35% above the prevailing Federal minimum. In our seven-year history, we have aided twelve start-up operations and 24 major expansions -- all locally owned, locally controlled. Investments have included such diverse industries as cosmetics, sculling oars, wooden toys, sportswear, lumbering and quarrying.

For example, an RLF investment in a cosmetics manufacturing firm, Rozelle, Inc., in a small northeastern Vermont town resulted in a major expansion and the creation of twenty-eight new jobs. The company offers good wages and competitive benefits, including flexible schedules for its primarily female labor force. In Orleans County where 47% of the poor are female heads of households, competitive jobs for women with benefits such as this are of vital importance.

The RLF has been effective in helping to stabilize and diversify faltering local businesses. The forest products industry, long the base of northeastern Vermont's economy, has been hard hit by both imports and declining product demand. The revolving fund has made several investments in wood-related businesses. These have included the development of a successful line of wooden toys and treated fencing products for new urban markets.

There is no doubt that regional revolving loan funds are an important part of the economic recovery strategy for hundreds of rural areas across the country. Through RLF's, the Federal government places both the tools and responsibility for regional growth and development squarely on the shoulders of local citizens. In northern Vermont and in scores of other communities in rural America, this system works, and its effects are tangible and documented. We do, however, offer some suggestions pertaining to the proposed programs.

(a) The current provisions of the Rural Partnerships Act appear to limit the accessibility to funding by requiring a high level of local match. Northern Vermont's RLF was established prior to the introduction of Federal matching requirements for the program. Our economic distress in the late 1970's was so severe that we could not have mustered even a nominal matching sum. While our situation has improved, the resources are not sufficient for our region to produce a 100% match against a Line of Credit, and we seriously doubt that the program will be accessible to areas suffering from greater economic instability.

(b) The bill appears to require RLF partnership investments by selected traditional lenders, ie. banks, S&L's, credit unions. It is our experience that many good entrepreneurial opportunities simply are not "bankable" in the usual sense. Fully one-half of our investments have required participation by other non-traditional lenders (including state, Federal, and local development groups) in order to leverage support from the banking community. It is not unusual for our RLF financial packages to have four or five participants, and in our experience these non-traditional methods have had no negative impact on loan performance.

(c) The Northern Vermont RLF currently works under a Federally mandated $100,000 per business cap. This limit, similar to the $150,000 one proposed in the Act, is proving to be increasingly difficult to maintain. For example, we devoted nearly 18 months of staff time to the expansion of a major regional employer, preventing a proposed southern New England consolidation. One of the greatest difficulties was structuring the financial package for equipment that cost as much as $500,000 per item. In today's market, with rapidly changing high-priced technology, the $150,000 cap seems unrealistic and may inhibit the overall effectiveness of the RLF to create substantive employment opportunities and keep abreast of technological change..

TECHNICAL ASSISTANCE

Resources for technical assistance, research and feasibility activities are scarce in rural America. While local governments and development organizations may conceive strategic plans, the critical leap from concept to development often requires professional assistance. The professional staff of regional development organizations can assist in this phase, but their size and scope of responsibility often limits involvement.

In our six-county region's strategic plan, we identify three to four development opportunities annually which require additional technical or professional assistance. We utilize our SBA, EDA and USDA programs to the extent possible, but these resources simply cannot meet the demand. A component providing rural areas with funds to conduct planning and feasibility studies would greatly enhance the success of the Act's education, infrastructure and loan activities by merging them in a comprehensive program.

CONTINUING INFRASTRUCTURE NEEDS

Ten years ago, "infrastructure" was the word that made Washington buzz; infrastructure was popular, it was a common thread that strung together rural and urban, prosperous and disadvantaged. As a nation, all our regions faced decaying and inadequate public facilities, and we set out to correct the problems with tax dollars. However, the basic inequities went unnoticed. While we were improving urban facilities, we were building rural water lines, sewer systems and roads for the first time.

The subsequent decline in Federal support for insfrastructure programs left many rural states, regions and communities without the resources to implement basic facilities programs. Without a foundation, rural areas cannot construct a lasting, dynamic economy, or in today's buzzword, they cannot be "competitive."

Public investments in community facilities can reap significant rewards. In 1980 the Town of Georgia received funding for a Regional Dairy Industrial Park from the Economic Development Administration and the Farmers Home Administration. The project, as you will recall, Mr. Chairman, was part of a regional strategy developed by local elected officals to utilize the agricultural skills of the labor force in the face of declining farm employment.

The park has attracted a multi-national firm, Wyeth Nutritionals, Inc., which utilizes dairy by-products in manufacturing and research in its $50 million plant. With a pending expansion and possible diversification, the company will employ over two hundred, and the community is well on its way toward establishing a stable commercial tax base.

Then, consider the community of Troy, Vermont, population 1,500. Long troubled by low incomes, joblessness and decline, Troy has struggled to overcome its problems with remarkable determination and with the assistance of regional organizations. This progress is now being threatened by the community's inability to finance a public waste-water treatment system; without the system, the community will lose its major employer, the AgriMark Dairy Cooperative, which employs 56 people in its cheese-making operation.

Reinforcing the theme of regional economic planning and integration, consider one of the major impacts of such a closing. The loss of AgriMark also will reduce by 25% the raw material available to Wyeth Nutritionals. Rural communities like Troy and Georgia must have the infrastructure to maintain their existing agricultural-based industries and to strengthen intra-regional relationships in order to compete in our rapidly changing economy.

Neither these communities nor other rural areas are standing at Treasury's door with their hands out; indeed, both have offered the maximum fiscal resources available locally to resolve their problems. We all recognize the complexities of this changing economy and the need for fiscal restraint.

In northern Vermont, local governments have contributed over 45% of the direct cost of Federal public works projects during the past ten years. Our ongoing relationship with the Farmers Home Administration (FmHA) has been an extremely productive one. Rural areas like ours hope for, and desperately need, a continuation of this partnership -- a joint investment in our mutual economic well-being.

SUMMARY

Mr. Chairman, Members of this Committee, you are to be commended for this undertaking, a progressive and thoughtful attempt to reverse ten years of a public non-policy on the economic well-being of rural Americans.

We have a strong tradition of volunteerism and active government in rural America. We are proud of the willingness of our private sector to aid community efforts. But we also believe that Federal investments are critical components in bringing back and retaining the economic stability of rural communities. For us, programs that will provide planning, technical assistance, public works and revolving loan pools are of the greatest value.

Our organization and our sub-state colleagues in Economic Development Districts and Local Governments stand ready to assist you in identifying and addressing rural development issues. We rely on you to provide the tools that will give us an opportunity to compete in this dynamic world economy and will allow us to enter enter the next century as full economic partners.

Thank you again, Mr. Chairman and members of the Committee, for inviting me to join you here today.

STATEMENT OF ROBERT W. WALES, PROFESSOR OF GEOGRAPHY AND AREA DEVELOPMENT, UNIVERSITY OF SOUTHERN MISSISSIPPI, PRESIDENT, MISSISSIPPI ASSOCIATION OF CONSERVATION DISTRICTS, HATTIESBURG, MS

Mr. **Wales**. Thank you.

Mr. Chairman, members of the subcommittee, I, too, appreciate the opportunity to appear here. I am a college professor. I am not here to talk on that basis, but I bet a lot of my students would sure like to have those lights that are down there to get me to turn off. I am kind of geared on a 50 minute lecture period so this 5 minutes is going to be a little bit difficult, but we will see what we can do.

Senator **Heflin**. Well, I tell you, in your chair, if I push this button, there is electricity. [Laughter.]

Mr. **Wales**. They would like that even better.

Senator **Heflin**. I do not want to, so you better adhere to it.

Mr. **Wales**. I noticed on the program that they have my name with Mississippi Association of Conservation Districts. I was not sure. I had to call up, tried to call up to find out who I was representing when I did come up here. As I said, I am involved with university teaching at the University of Southern Mississippi.

BACKGROUND

I have been involved with rural development since the early 1960's. I worked with a project development officer on an Indian reservation in Oregon, spent 3 years in Puerto Rico studying the Industrial Incentives Act trying to find out how that interfaced with that island's rural problems. When I arrived at the University of Southern Mississippi, we set up two programs in planning and economic development trying to get students out into the rural areas.

I figured by that time that I had just been sitting in the ivory tower too long so I said what I need to do is to move out into the real world and see what is going on there to try to better understand some of the practitioner type problems.

I joined about every kind of agency or organization as I could. I involved myself with the Mississippi Industrial Development Council, Southeastern Industrial Development Council; the National Economic Development Council and the Mississippi, Southeastern and National Association of Conservation Districts. I am State president of that. The National Association of RC&D, Resource, Conservation and Development Districts, and the State chapter. I am State president of that. I am on the local planning commission.

I have gone out there and just tried to interface with everybody. What I have come to learn from all these experiences is something that all of you already know is that there sure is not going to be any quick fix for these economic development problems. The problems are complex and they are varied, and solving them is not going to be made any easier by the fact that they have been ignored for so long and such a large percentage of our population is now urban and really the votes, the political votes are urban. The money is urban oriented. It is going to be very difficult for us to try to haul some of this back out into the rural area. I think that a lot of the urban people would wish our rural problems off and preferably in biodegradable fashion, but they are not going to go away.

ECONOMIC DEVELOPMENT AND ECONOMIC GROWTH

I would like to just briefly, share a couple things. I have been reading some of the testimony that has been, the correspondence that has been passing around here between us, or between you. And a couple of things came to mind there. Talking about economic, or about development. I think most of us understand what we mean by development in here in the very general sense of development. But my concern comes in in terms of economic development. I have seen the terms "economic development" and "economic growth" in many of your correspondences here.

I think that the future of our rural programs are going to be economic oriented. They are going to lean heavily toward the economic side. The problems and solutions are going to differ here according to the approach that is taken. And the resources to get the job done are going to be different depending on what your perception is of economic development. Economic development and economic growth are the two terms we are using. They are not the same.

I do not think that we should get them confused. The economic development involves something more than economic growth. It focuses on change in economic structure over the long-term. Growth, on the other hand, takes economic structure as given, and focuses on short-term changes in the economy.

There is nothing right or wrong with either of these two approaches. Each has its own set of advantages and disadvantages, and I think that one can feed the other. But I would caution that we keep in mind the quick fix growth solutions, many of which we are going to be looking for here, is not going to solve our long-term economic problems.

ADOPT A NATIONAL COMMITMENT

I think that first of all we have to adopt a national commitment to rural development. I think we are on the road to do it here. But I also further think that we have in place already a great many, a great deal of the human and financial resources that we are going to need to solve our problems. But this is not going to occur unless we are willing to make some changes in existing organizations, some new ways of approaching problems, new ways of doing things, retrain some of the existing people that we have.

I was going to comment on one section on the Resource Conservation and Development Districts, which I think will be a catalyst in rural development in the future. These are in my prepared testimony. I have given you some examples about some of the work that they are doing. I will conclude my testimony here in this part. But I do have additional comments in the testimony I submitted.

Senator **HEFLIN**. It will be made a part of the record. We would be delighted now to hear Mr. Alex Curtis.

[The prepared statement of Mr. Wales follows:]

Testimony Before The
United States Senate
Committee on
Agriculture, Nutrition, and Forestry
Subcommittee on
Rural Development and Rural Electrification
Hearings on Rural Development

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STATEMENT OF ROBERT W. WALES, PROFESSOR OF GEOGRAPHY AND AREA DEVELOPMENT, UNIVERSITY OF SOUTHERN MISSISSIPPI

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to appear before you this morning, and trust my testimony will in some way aid you in your deliberations on rural development in general and "The Rural Partnership Act of 1989" in particular.

Before I begin, let me give you a bit of my background so that you might better understand where I´m coming from and going, and that my concern for rural America is as personal as it is professional.

My bachelor and master´s degrees are in natural resource management, and my Ph.D. in agricultural geography. Between these degrees I worked for a brief time with the Bureau of Indian Affairs as a Project Development Officers on a reservation in Oregon. It was there that I first encountered rural development problems of the first magnitude. I also spent three years in Puerto Rico during which time I had the opportunity to examine that island´s Industrial Incentives Act of 1947--otherwise known as Operation Bootstrap--and its affect on rural development.

At the University of Southern Mississippi, where I presently teach, I was involved in the establishment of two degree programs, both with the potential of addressing rural development issues. The first, an undergraduate program in community and regional planning, was established with the idea of producing persons that would be affordable at small community and county levels.

The second was a graduate-level program in economic development, which is the only university program in the country producing these type professionals. Most of these graduates are moving into growth-node areas, and thus only partially successful in addressing the broader development needs of a great proportion of the country´s rural population.

To better understand our rural problems and needs I also set about involving myself with as many practitioner types as I could who were playing some role in rural development. In this effort I involved myself with the Mississippi Industrial Development Council, the Southeastern Industrial Development Council, and the American Economic Development Council; the American Planning Association, where I became President of the Mississippi Chapter; the Mississippi and National Associations of Conservation Districts, in which I now serve as state president and member of the state commission; and the Mississippi, Southeastern States, and National Association of Resource Conservation and Development Councils, in which I also presently serve as state president. I´m on our county planning commission.

What I have come to learn from all these involvements and experiences, and something each of you has known for some time, is that there will be no quick-fix for rural development. The problems are complex and varied, and their solving has not been made any the easier by the fact that for too long they have been ignored in hopes they would off themselves, preferably in biodegradable fashion. I commend you for your efforts to come to grips with this overlooked and often misunderstood segment of our national population. And I further commend you for having patiently sat through this personal discourse on education and involvement in rural development.

I had an opportunity to read Larry Farmer´s rural development testimony presented on April 5th. In it he made the point that there are two rural Americas: the real and the perceived. His Really Rural America is the really poor America. I reiterate this point, but for a slightly different reason. My concern is that if we are not careful we may end up doing all the right things in all the wrong places--that place being the perceived rural America. Whatever the programs, those who facilitate, advise or otherwise carry those you adopt into the field must know which America they are heading for. My experiences with certain groups of professionals who may become involved in some capacity with rural development is that they have never been down the road to Really Rural America, and would have a hard time interfacing with that segment if they did find it.

As Mr. Farmer differentiated between the rural Americas, I would like to take a moment to differentiate between our perceptions of economic development for three reasons. First, because I suspect that much of our future development effort will lean heavily toward the economic side; second, because problems and solutions will differ according to the approach taken; and third, because the resources to get the job done will be different. I think you and I will agree that by rural development we mean a process of cumulative change that results from positive socio-cultural, political, and economic forces. Unfortunately, we still don´t know how these forces interact; how, for example, political and socio-cultural development contribute to economic development, and are in turn determined by it.

During my travels I´ve heard the terms economic development and economic growth used interchangeably. They´re not the same, and its important we recognize this fact. Economic development involves something more than economic growth; it focuses on change in economic structure over the long term (e.g., entrepreneurship theories). Growth, on the other hand, takes economic structure as given and focus on short-term changes in the economy (e.g., expanding existing industrial capacity, and export base theories).

There is nothing right or wrong in the use of either of these two approaches. Each has its own set of advantages and disadvantages, and it´s possible one can feed the other. But I would caution we keep in mind that "quick-fix" growth solutions are not as effective as development strategies since they seldom improve an economy over the long term. Too many of the basic production industries now sought by developers are no longer today´s producers of wealth, and one rural area´s gain is too often another areas loss.

Development in any sense of the word must be viewed as a community grounded process involving practical, action-oriented education. It also involves a very different set of professional skills than would generally be found in a technical assistance orientation.

A great many agencies and organizations have been dealing with our nation´s rural problems over a number of decades. These include both public and nonprofit, and range from the myriad of U.S. Department of Agriculture programs to development districts, foundations, and community action groups. That we have not achieved more success in rural development, even if by accident if not design, is, I believe, due mainly to the fact that we have never had clear-cut goals or well-defined policies. I realize that rural problems vary from area to area, but this is more a matter of developing approaches and getting the right people to the problems than it is a negation of specified goals and policies.

Given a national commitment and direction to rural development, I believe we already have in place a great deal of the human and financial resources it will take to begin to address our needs. But this will not occur unless we are willing to change a few of our old ways of doing things, and set new priorities. Most certainly what we shouldn´t do is place added responsibilities on already overworked and underfinanced agencies and organizations.

Because my time is limited, I would like to complete this testimony by touching briefly upon those professional skills I mentioned earlier, and particularly as they relate to the Extension Service´s role in Title III of your Rural Partnership Bill. I think the concept is good, but several concerns come to mind. I´ll address one, and recommend on another.

Let´s assume a state such as Mississippi participates in this program and hires ten extension staff. I doubt whether there is in the whole U.S. a single individual who can claim to have expertise in all the areas you list on page 89 of the Bill. At best it would take three or four to fill them all. So we´re talking, for example, one or two of the ten individuals in the area of business and financial planning alone. Will these be expected to touch base with all businesses of need in rural Mississippi? Even if you localized them to "critical areas" the task would be monumental.

Another of the assistance areas you list on lines 8 and 9 has Extension specialist assisting ". . . community leaders in community economic analysis and strategic planning." I believe this is going to have to be one of the key areas in rural development. Even more so than business assistance. And I would suggest you look to the Department of Agriculture's Resource Conservation and Development program, rather than Extension, for help in this area. First, because I think it's out of place in a section dealing primarily with businesses, and second, because it will largely duplicate an existing service area.

One of the reasons for my long involvement in the RC&D program is because of its potential to be a leading catalyst in rural development. Like most rural development programs, this one came into existence with little more by the way of guidelines than to go out and develop rural areas. There was no particular focus, and development efforts varied greatly from area to area. For this and other reasons the program has been a difficult one to measure cost/benefit-wise, and since 1975 various administrations have attempted to discontinue its funding or phase it out all together. In FY 89 its budget was $25.1 million. Something so small we could obviously do without. But it was small only in staff. Today there are 191 councils throughout the U.S. with over 4,000 councilpersons representing every walk of rural life.

Let me give you a couple of examples of what we're involved in in our 22-county area. Over the past year we identified rural fire protection and wastewater treatment as two major issues of concern. In rural fire protection are objective is to establish a system of dry fire hydrants in at least one volunteer fire department in each of the 22 counties as demonstration projects for others to follow. Such a system will greatly expand fire protection service areas for rural homeowners, and significantly reduce fire insurance rates. To facilitate identification of water sources for dry hydrant installation, we have contracted, at no cost, with a technology lab at the Stennis Space Center. They are developing for us a package that will use remotely sensed imagery to identify surface water sources throughout a county, the location of all all-weather roads, and the location and distance of all structures from potential dry-hydrant locations. This package will be available to anyone in the U.S. desiring it. And I might add, can be modified for other uses as well.

The other project we have ongoing deals with wastewater treatment. The small town of Union, Mississippi, is a good example of the problem facing many municipalities throughout the country. Its wastewater treatment budget, at $85,000 annually, is 20 percent of the town's budget. It's already worn out, does not meet EPA effluent standards, and has a current debt of $344,000, which will not be paid until the year 2009.

We think the answer to town's like Union lies in a new technology using aquatic plants that are grown in a filter made of rocks that the wastewater flows through. Modification of Union's current system will cost $600,000, with annual maintenance and operation costs of $55,000, and an annual electricity usage cost of $64,000. A new bio-system for Union would cost $412,000, $2,000 in annual maintenance and operation cost, and $1,500 in electricity. The savings in construction cost alone is $248,000 in use of the new bio-system. And for maintenance, operation, and electricity over a ten year period: slightly over 1.1 million dollars.

One such system is already in place, and we're working with four other communities who want to establish the bio-system. And we're getting this, the dry-hydrant system, and several other lesser projects with 22 volunteers and one GS 12 coordinator.

RC&D Coordinators are not trained community economic analysts and strategic planners. But then who is. However, with a little in-house retraining and retooling, new job descriptions for those who will move into these positions, and an internal policy that will set new direction, I believe our nation's RC&D councils can play an even greater leadership role in rural development.

My purpose here today is not to seek an infusion of funds into new or existing programs, although I'm sure many of my colleagues in the Department of Agriculture, departments of economic development at the state level, planning and development districts, economic development districts, and others who either recommended me to you or knew I was going to testify would have preferred I do. It is, rather, to suggest that in the development of programs aimed at rural development we have a fair fix on what we see as the problems, take a close look at the resources we already have available to us that may actually or potentially match the problems, and then and only then go after new resources.

A question I often hear is why, if we can put men on the moon, can't we solve such earthly problems as surround the plight of the rural poor? The answer is relatively simple. Three essential facts were known about the moon trip: where we were, where we needed to go, and what means were necessary to get us there. Developing policy on rural development is conceptually difficult because we do not all agree on what we see as either the problem or the future for rural areas. And even if we could agree on these points, we are then faced with controversy over the methods to be used. And finally, with the budget the way it is, I fear our financial resources may not be as we would like.

NASA had it made when compared to the task before us. Nevertheless, through your effort, and the effort of those millions of willing but disadvantaged rural poor, we, too, will succeed.

Thank you

STATEMENT OF ALEX CURTIS, ON BEHALF OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES, PRESIDENT AND CEO, FARMERS GRAIN TERMINAL, INC., GREENVILLE, MS

Mr. Curtis. Thank you, Mr. Chairman. We appreciate very much the opportunity to appear before your subcommittee and commend you for your leadership on this important issue. I particularly thank you for coming to our area a couple weeks ago to become better acquainted with our area, which is certainly not a lot different from your home area. Thank you, Senator Cochran, for those kind introduction remarks.

BACKGROUND

My name is Alex Curtis, and I am president and chief executive officer of Farmers Grain Terminal, which is a rice and soybean marketing cooperative headquartered in Greenville, Mississippi. I also serve on the board of directors and as chairman of the Agricultural and Trade Police Committee of the National Council of Farmer Cooperatives on whose behalf I appear today. I am also a row crop and catfish farmer and have been actively engaged in farming for 40 years.

NATIONAL COUNCIL OF FARMER COOPERATIVES

The National Council of Farmer Cooperatives is a trade association representing 90 regional marketing and supply cooperatives, 32 State councils and the cooperative Farm Credit System. Its members in turn have over 5,000 local cooperatives with a combined membership of nearly 2 million individual farmers.

I believe it is fair to say that no other industry group has a greater investment in rural America nor greater interest in the outcome of the debate on rural development.

According to USDA's recent analysis, farmer cooperatives have a total investment in excess of $27 billion as measured by total assets and a combined business volume of nearly $75 billion annually.

They also represent a significant source of employment and tax base for rural communities all across the United States.

In addition, the farm credit bank members of the National Council of Farmer Cooperatives have a significant interest and investment in rural America as represented by their $51 billion loan portfolio, which will be outlined in later testimony by the Farm Credit Council.

Farmer cooperatives also provide a broad range of services on behalf of their farmer-owners, including marketing and supply, credit delivery, communications, and education and training.

In summary, farmer cooperatives and institutions of the cooperative farm credit system have a tremendous investment in rural America. At the same time, we believe we can and do have a role to play in rural development. The question is what can be done to strengthen such rural development efforts?

STRENGTHEN RURAL DEVELOPMENT EFFORTS

The answer, Mr. Chairman, we believe is to support those policies and programs that are aimed at creating the kind of environment which will attract needed capital and investment on a sustained basis.

This requires increased emphasis and support for research, education and training, improved communications, as well as the entire infrastructure of rural America such as roads, highways, bridges and waterways.

We recognize, of course, the problems and limitations of available resources at the Federal level. This may require a more targeted approach rather than a broad based initiative, such as that embodied in the establishment of "rural enterprise zones," as has been previously proposed.

In addition, there may be a need to direct or allocate certain funds—both existing and any new moneys that might be made available—to ensure that rural America benefits. This would include those programs administered by the Small Business Administration, and the Departments of Education, Commerce, and Transportation, as well as other departments and agencies, including Health and Human Services.

There may also be a need to review USDA's ongoing programs, particularly in the area of loan guarantees to determine how those programs may be strengthened.

We also need to look at what changes may be needed to enable the farm cooperative farm credit system to fully participate in the revitalization of rural America in such a way that they can continue to operate for the benefit of their producer and cooperative owners. In this regard, we would like to associate ourselves with the testimony that will be outlined by the Farm Credit Council.[1]

Again, the emphasis should be on creating the right kind of climate that will attract the right kind of investment on a sustained basis.

This means that those types of investments which are economically sound and creditworthy, and which offer a reasonable return for investors.

EDUCATION

However, if there is one area that should be emphasized more than most, it is education. During my years as a farm operator and as an active member of the rural community, I find the greatest deterrent to high productivity, sound investment, and a satisfying quality of life is the lack of a good education by a vast segment of the rural population.

Unless this issue is addressed, we cannot begin to fully realize the investments that are now being made in research, agriculture and agribusiness inputs, and our rural infrastructure. Nor, can we expect to be able to compete in a domestic and international environment that is becoming increasingly complex and more competitive everyday. As our Nation becomes more advanced in all areas of human endeavor, a very large segment of the rural population finds itself unable to cope.

At the same time, Mr. Chairman, it is important to recognize that a healthy rural economy is still dependent to a significant degree on a healthy farm economy. In this regard, I want to commend you and this committee for your efforts in conjunction with the 1985 farm bill and subsequent legislation.

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[1] See the testimony of Joe Beck, pages 264-277.

1985 FARM BILL

As a result of that legislation, the farm economy has turned around and begun to show significant improvement by virtually every measure. Farm income is up. Exports, which had declined substantially, have increased nearly 50 percent, jumping from $26 billion in 1986 to $38 billion. Our share of the world market for many commodities has also improved.

At the same time, the cost of the program, which hit a record $26 billion in 1986 has since declined to approximately $11 billion and is projected to decline even more.

This proves that the current program is working and has helped revitalize a key sector of our economy. For these reasons, I hope we can maintain the current direction and thrust of the 1985 farm bill as we look ahead to 1990 and beyond.

COMMEND COMMITTEE

Again, I want to commend you and the members of this committee for your leadership and support. The issue of rural development is an important one, particularly when you consider that agriculture in its broadest sense is the largest single segment of our economy—accounting for nearly 22 percent of total GNP. For this reason, what happens to agriculture can and does have a ripple effect on the entire economy.

As we go forward, we will be working within our industry to develop more specific recommendations with regard to what is needed to promote rural development as well as how to strengthen our existing private-public partnership. In this regard, we look forward to working very closely with you and this committee. Thank you, sir.

Senator HEFLIN. Thank you.

Mr. Garrett, we are very much interested in rural water. Your testimony points out that many sections of rural America still do not have water that is available to them, and that this is an uncompleted task that needs to be continued. There have been substantial cutbacks in rural development funds, and therefore that means that is cut back.

There are other problems that we are confronting with water. Drought, the greenhouse effect that we hear a great deal about today, and these are problems that may mean that we have to have additional irrigation in certain sections of the country that did not have it. There are other problems that are going to come up with water. There is no question that there is a considerable environmental issue that will be addressed at some time, whether this year or the next 2 or 3 or 4 or 5 years, dealing with pesticides and the residue in water, groundwater, all of this which will affect rural water. For example, it may well be that existing sources of water would not meet standards that might be established, and that you would have to go to other sources of water.

Water, I think, is one of the major problems facing rural America in the future. We passed, in the drought bill, a title dealing with water management giving broad power to the Secretary of Agriculture and calling on all departments and agencies that might be affected to cooperate with it. One thing that I know I have had in mind would be that many of the small water authorities might come together in some type of confederation and be able to build better water systems to get water from different sources and to have it in much more of an abundant supply. And it may well be that in order to issue bonds and things like that, that there may be changes at the State law level. We, in effect, put on the Secretary of Agriculture some responsibility to come up with regulations pertaining to these. They have not yet issued those regulations. We brought it to the attention of the Secretary several times and I think maybe they will in the near future issue those regulations.

But with all of these problems dealing with water, is it your feeling that there is great need for a relook at water resources and the ability of rural America to have a sensitivity to it and have as clean, pure water as we can? If you would expand a little on that?

Mr. **Garrett**. Mr. Chairman, people have the idea that water is free. And it is. The rivers are running with it. The creeks have it, you know, and the springs are flowing, and we dig a well and we have it. It is free, but the time you dig a well and you pump that water and you treat that water and you store it and you run it down through a pipe to deliver it, why then there is an expense there that has to be met.

Now then we are talking about pure, clean, wholesome water as we are referring to here. But we are finding that there is contamination of our water supplies today that need to be addressed and looked at. Our wastewater program and certainly with one that EPA is working with the States now in being able to make money available as seed money through which they can issue tax free bonds at a low interest rate. Then they will be able to clean up a lot of these. As an example, in our State up on Sand Mountain where they have the topsoil, the bedrock, it is about that far from the top in the topsoil. We have 17,522 septic tanks on that mountain. And that water goes down and hits that bedrock and it eases over and it is over, next it is over in Guntersville Lake and it is in the Tennessee River. That is part of it.

We are finding this to be the case in certain areas, not only in our State but in others in which you have no—the septic tank situation is one that is getting the ground saturated. We all know that by 2020, why then the population of this country is going to be much increased over what it is today. So we are going to have more and more people.

I live on a farm. And as farmers, why we know we have livestock that will die once in awhile. And I used to just take a tractor and drag the cow over on the back 40, and it did not bother anybody. But now when I drag a cow back on the back 40 it is up next to somebody else and they do not like it a bit in the world. So something has to give if we are going to be able to do it. I am just pointing out that the concentration of population in this country is one in which we are going to deal with on a day-to-day basis. And the clean, good water, wholesome water is this. The question that you raised there with reference to the system getting together, I think the county governing bodies—we have representatives here from the county judges and county governing bodies—we probably take the leadership in being able to develop a water supply source, whether it comes from the river and the creeks or you impound water, or we develop it in whatever way to be able to treat it and deliver it to the systems and do it.

It would be very difficult for a small water system of 500 users to put in a treatment plant because the cost of putting in treatment facilities for treating water, so that it is potable water and can be used, is very expensive and cannot be done. It will have to be a cooperative effort. And we are working in that direction. But there has to be a source of it. And as I say, with the water supply authority that the legislature in Alabama has created, if we by some means can get some seed money, the same as EPA put into the wastewater revolving fund, and the States matched it by 20 percent, why then in 1991 they will have over $100 million in that fund.

Well, that is a whole lot of money. But when you look at the need for wastewater treatment in our State, we are talking of $2.5 billion to be able to do it. So it is not a great deal. $100 million in our water program would make it possible for us to issue tax free bonds at a very low interest rate, and we can solve that problem.

Senator HEFLIN. Mr. Wales, you and the Conservation Districts, what do you foresee as problems pertaining to water and any approaches that ought to be made toward it.

Mr. WALES. One of the items that I had in my testimony was some work that is being done with the, in your case here, with the new technology developed in the Stennis Space Center on use of aquatic systems, which is cutting millions of dollars off of small community type water problems.

I think that what we are getting at here is that we are sitting one person apart, and sometimes we do not know what the other hand is doing, and I think that this is a major problem that we have among us in our rural problems. You talked about the clearinghouse. There are just so many of us out there that do not understand the types of technologies, the things that are available to us, and this includes our water problem, of course, and we are very concerned about our soil and water conservation.

And I think some of these new technologies that are coming up are going to help the small communities and the rural water systems. But we have to make this information somehow available to everybody that is out there and begin to work on some innovative approaches to solve our problems.

Senator HEFLIN. Thank you. I am going to call on the other members of the committee in the order that they came since that seems to be the chairman's plan for the future of the operation of the committee. I believe Senator Conrad came first.

Senator CONRAD. Thank you, Mr. Chairman. I want to thank you again for the leadership that you have provided on this issue in this Congress. These hearings, I believe, have been very beneficial as we try to put together the rural development package. I was very interested, Mr. Page, in your testimony because you addressed an area that we still have under debate as of this hour. Later this afternoon, I am going to be introducing the rural investment fund as legislation before Congress, and you made a number of comments on some of the initial drafts of that legislation.

There are two issues that we still have under debate. One is the question of the size of the firm that would qualify for the receipt of equity capital or loan funds, low interest loan funds. We currently have a business size that goes up to $1 million. Firms that would be over that size in terms of annual sales would not qualify. I would be interested in your reaction to that cap.

Mr. PAGE. You are talking about $1 million in gross sales, I presume?

Senator CONRAD. Correct.

Mr. PAGE. On that basis, I will take the question back to our experience in operating a revolving loan fund serving small businesses. The business with the largest number of employees in our portfolio is one that has peaked at about 120 employees.

Senator CONRAD. What are the annual sales of that firm?

Mr. PAGE. Annual sales in that firm happen to be between $3 and $4 million. But in looking at our overall portfolio of some 48 loans, the exclusion that you are talking about of $100 million, excuse me, of $1 million in gross sales would, probably would exclude only, I would guess, 20 to 25 percent of the businesses with whom we have worked.

Senator CONRAD. Let me ask you this. In terms of job generation, would it be wise to exclude that 20 or 25 percent or in your judgment would it be the better part of wisdom to provide more flexibility to those local units that are making these decisions as to who actually receives the assistance?

Mr. PAGE. From a purely local perspective, I would love to have the flexibility.

Senator CONRAD. Thank you for that answer because that is the position I have taken. It an excellent answer. Let me ask you the second question.

The second question goes to the cap per business. You note that you work under a federally mandated $100,000 per business cap. You had noted in an earlier draft we were at $150,000. I can report to you that we have been successful in raising that to $200,000 in our internal discussions.

You note in your testimony that that cap is proving to be increasingly difficult to maintain. Could you just briefly sketch out your experience and what that cap in your judgment ought to be?

Mr. PAGE. The reason that I picked the cap out of that earlier draft as one of the points of concern is that with our EDA mandated—$100,000 cap on loans to businesses—we are finding that in order to maintain pace with changing technology, many of our companies are buying increasingly expensive pieces of equipment and machinery.

And that the $100,000 has started to become a bit of a burden. As an example we recently participated in an attempt to keep a printing press from moving from our region. They had proposed consolidating their operations in southern New England.

The package that we participated in included the acquisition of a papercutter and a Heidelberg four color press. The four color press alone cost $500,000. The papercutter cost $150,000. When you start talking about equipment such as that and high technology equipment, then you really need some flexibility to increase that. The apple chip project, we are estimating there that the equipment costs alone on that project probably are going to be in the range of $2 to $2.5 million.

So we do need some flexibility there. I am not sure what that cap is. I would like to see, I think certainly the $200,000 cap is a step in the right direction. I think it could probably be lifted even a little further.

Senator CONRAD. That is another excellent answer. Thank you very much, Mr. Chairman. In the interest of my colleagues' time, I would be glad to give back the balance of my time.

Senator HEFLIN. Well, thank you. By the way we want to thank you for your apple chips. However, we have a medical adviser on the agricultural staff, and they have advised me to announce to everyone who ate it that they should drink a lot of water. It seems that the apples from which those chips were made may have been treated with a pesticide that is questionable.

Mr. PAGE. Not a chance. If they were, it is because they were imports.

Senator HEFLIN. Oh, they are imports. We are delighted to have Senator Cochran, if you would.

Senator COCHRAN. Mr. Chairman, thank you.

I want to just bring out some of the comments that were made in the written testimony of Robert Wales from the University of Southern Mississippi. I think it is interesting to observe that he suggests that we look to the Department of Agriculture's Resource Conservation and Development Program for more active input into the effort to solve problems that confront those who live in small towns and rural communities. I think it is interesting to see that he specifically talks about wastewater treatment programs.

We all know that EPA has standards that they enforce. We have a cost sharing program that was already mentioned, I think, by Mr. Garrett with small towns around the United States trying to deal with this problem of contamination and cleaning up our environment. But the cost of these installations is just horrendous, and a small community, as Mr. Wales points out, he gives an example of Union, Mississippi, has to spend 20 percent of its town's budget right now on a waste treatment facility. And it is out of date and worn out and does not help meet the effluent standards of EPA.

So they have to do something about a new facility. And I wonder if you would tell us about the new technology that is being tested at the Space Center, which we named earlier last year for John Stennis, our former colleague, a biosystem for treating wastewater, which may offer hope for small towns and rural communities? Can you tell us a little bit more about this, and what you think we can do as a committee to draw attention to this or try to help ensure that these systems can be put in place where they would be more economically feasible around the country?

Mr. WALES. Yes, I believe the city of San Diego is using one of these so they are not just limited to small rural communities although they are working now with the use of these on single homes. We have some single individual homes that actually have these in place so all the way from a single home through subdivisions to small municipalities to large cities. These use a system of flow reservoirs with certain types of vegetation, certain size rocks in them, and the vegetation, like with our natural wetlands, cleanse the waters as it flows through them.

It is relatively simple. They are not that simple to in-place. You just do not go out and build one. You need the engineers there to do it correctly, but once in place with the figures I have shown on here, they can save tremendous amounts of money. We have had some communities in Mississippi that have gone this way. They are just the answer. They cannot go the big funding routes that are going to be necessary for current methodology.

Senator COCHRAN. Do they get approved for cost sharing by the EPA when they apply for funds to help build these systems?

Mr. WALES. I am not sure in terms of the cost-sharing funds what is available with these.

Senator COCHRAN. But in operation and maintenance the savings are tremendous. You point out that in the case of Union, over a 10-year period, they would save $1.1 million in operating and maintenance costs?

Mr. WALES. Operating, maintenance and electricity, yes, $1.1 million savings over 10 years.

Senator COCHRAN. Yes. And Union could construct a new facility for almost $200,000 less than a traditional one?

Mr. WALES. Yes.

Senator COCHRAN. You mention the Resource Conservation and Development councils that are in place around the country, and you are suggesting that we put greater emphasis on the role they play and look to them for leadership in helping solve rural development problems.

Mr. WALES. I have looked at who is involved in rural development, the extension service. I mean everybody. Trying to find out who in the world, where we can go to begin to implement some of these strategies and people who are involved in the general economic areas. We have had here today, and in other testimony, a lot of specific individuals advocating certain causes. I think this is a tremendous program that can be put in place. We have 191 councils, RC&D councils around the United States.

One coordinator in each one, a GS-12, 4,000 members coming from all walks of life. and we are gearing up now toward working in a 22 county area, putting these watersheds in, putting dry hydra and sand. I think we have done a tremendous amount. Our problem is that we are so small and flexible and we are on the cut list to be cut whenever money needs to go. That seems just like an ideal place to cut out. But I think that what we have here is a little jewel in the rough.

Senator COCHRAN. Well, I am glad to hear your comments about that because as a member of the Appropriations Subcommittee on Agriculture and Related Agencies, we always manage to find some funds to provide for continuing that program. And it is interesting to see your comments being supportive of the continuation of that program and how it could even be expanded, not necessarily in paid staff, but in trying to refurbish and bolster the councils and provide a vehicle for involvement of volunteers who could provide technical assistance to small towns and rural communities.

Mr. **Wales**. We need new direction there in that program, I think, probably, but it is not just that program. It is everything. My concern is with the whole issue of economic development, rural development in the United States. We have so many rural people. I think agriculture—we have thousands and thousands of people at the Federal level and at the local level. And my question is with all these people out there, even if it was by accident, why are we not getting better development in the rural areas?

I mean it just should happen. I mean everybody is stumbling all over themselves out here. My concern is that we do not have direction. We do not have direction at the local level. We do not have direction at the Federal level. Priorities set and direction set that we are just all running in different directions. This does not mean that we should not be doing what we are doing, but we should begin to identify and zero in on what the problem is out there.

As I had indicated if I could, on the last page of my prepared statement, a question that I always hear is if we can put men on the moon, why cannot we solve such earthly problems as rural development? You will hear this with the common cold and everything, and I said here that the answer was simple. Three essential facts were known about the moon trip: where we were, where we needed to go, and what means were necessary to get us there.

In terms of developing rural policy, we do not really know where we are. We do not really know where we want to go. And certainly with the budget the way it is, we do not have all the means necessary to get there, but I think we must develop some direction. We say, well, it is employment. Well, then let us look at the employment problem. It is medical facilities. It is this and that. What is happening is that we have identified so many things that are wrong, and we are just going out in a thousand different directions, and I am really not too sure we are going to get much more solved going in that direction than we have in the past.

Senator **Cochran**. Mr. Curtis commented in his testimony about the importance of farm programs and the farm bill of 1985 in turning around the opportunities for those involved in agriculture to operate at a profit. That was encouraging to hear, and I presume that you would suggest to us as we approach the writing of the 1990 farm bill that we give serious consideration to continuing a lot of the programs in the 1985 farm bill. Would that be your suggestion to us?

Mr. **Curtis**. Yes, Senator. As you know and as we have discussed, we are very much in favor of a continuation of the basic principles of the 1985 farm bill. We think it is one of the better ideas that has come along in this century in agriculture, and certainly is headed in the right direction, and we believe that a continuation of the basic principles in that bill, and I particularly like the trade principles. The continuation of the 1985 farm bill will help us to be able to maintain our exports, increase our market share, and be competitive in the world. And I think this is extremely important to agriculture in the United States.

Agriculture in the United States, as you know, and as most of us understand, is production oriented, and we must be able to produce in the United States, and the 1985 farm bill has given us that ability.

Senator Cochran. Thank you, Mr. Chairman.

Senator Conrad [presiding]. Senator Baucus.

Senator Baucus. Thank you, Mr. Chairman.

Mr. Page, I would like you, if you could, tell us a little more precisely what you think the revolving loan provision should contain in this major bill we are going to pass. Many of us are working on legislation. Senator Conrad has spent a lot of time, and must be commended for his efforts. I, too, have introduced a bill some time ago, last April, which essentially provides about $30 million of grant money from SBA to competing economic development associations and then with a 50/50 match from a private lender, and then jointly give to the business that is applying for the low interest loan.

Assuming we have only $30 million, could you just give the parameters you think the ideal provision, if you were writing that provision in this bill, what would that be?

Mr. Page. OK. I would be happy to take a shot at that. I think that certainly this bill has made a tremendous start at putting together a very effective revolving loan fund program. The items that I had indicated before and indicated in my testimony are, I think, key. Competitive, economic development funding is a good prospect. I would like to see that competition tied to public involvement as well. I think there need to be clear lines of responsibility for receipt of those funds.

Obviously I come from a bit of a bias in that I work for an Economic Development District where we have that kind of credibility because our board of directors is made up of local elected officials, who do have to take the responsibility for receipt of those funds. As I noted in my written testimony, we have separated our loan discount committee from that political process by making it a separate and distinct committee.

It does still, however, report to the district board. So I think that those ties to local areas and the lines of responsibility are an important factor in looking at the competition for revolving loan funds.

Second, I do still believe that it is necessary to make sure that lending levels, amount of investment to specific companies on an annual basis are adequate to meet the needs of very quickly changing business environment out there, and I do think that certainly again the $200,000 cap is much closer to reality than $100,000 or $150,000.

Aside from that, I think that there needs to be flexibility on the local level for a revolving loan fund plan, a strategic plan to reflect the needs of those communities. In his comments a few minutes ago, Mr. Wales indicated that a lot of us are going off in different directions. Well, in some cases that is true, but as long as we are working with communities which have strategic vision, which are involved in developing strategic plans to govern their revolving loan fund, you will find that much better investments are made, investments that do create jobs, that reflect the needs of the area, and build on the resources that are available there. We operate ours under just such a plan.

Senator Baucus. What about the very small companies, fewer than 15 employees or fewer than 25? Should we have some provision in the bill which is less redtape for smaller companies, who also need technical assistance, frankly?

Mr. PAGE. Absolutely.

Senator BAUCUS. Because by definition if they are smaller, they probably do need technical assistance. So there should be some provision then for those smaller needs.

Mr. PAGE. I hope, Senator Baucus, that you are not seeing something in this bill that I have missed when you say redtape. Because I did not see a lot of redtape there, and I am hoping that that is the way it is going to function. We are finding that a large portion, better than 50 percent of our loans, are in businesses of exactly the kind of size that you are talking about.

We, as a revolving loan fund, try with our professional staff to deliver those business development services. We also, in Vermont, have a Small Business Development Center that is an SBA program. We are in the process of moving that program, and I am on the committee to study its move, from the extension service at our land-grant university which currently operates it to the business department of that university because the agricultural extension service simply has not had the business resources to make the program function in the way that it should.

So I think that those services are available out there for technical assistance and that if the plan is flexible enough, if it truly reflects the kind of business development that we see in rural areas, then one single revolving loan fund should be able to serve both ends of that spectrum.

Senator BAUCUS. Well, this is a revolving provision, too. It is going to change a lot over the next several months. I very strongly ask you and the rest of the witnesses to keep abreast of what we are doing here. If we could figure out some way to let you know what we are doing so that you can give us your ideas as different provisions of this part of the bill are modified and changed and enacted. Thank you very much for your help. Appreciate it.

Mr. PAGE. Thank you.

Senator CONRAD. Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman. I am one who wants to applaud the chairman's new policy of having people ask questions as they come in, first come, first serve, and I am curious as to whether the red and green lights have any significance. [Laughter.]

I am baffled by the red and green lights.

Senator BAUCUS. I am, too. They are flashing. I have that same question.

Senator CONRAD. You are out of time.

Senator DASCHLE. Now I get no light. So I do not know what that means.

Senator CONRAD. That is a special South Dakota rule.

Senator DASCHLE. For the record, I assume the green light means that there is a period of time within which to ask questions, and that the red light means to stop, but that does not explain what I have been seeing as this phenomenon.

Senator CONRAD. It has absolutely nothing to do with questioning time. It has to do with the celebration of Christmas. [Laughter.]

Senator DASCHLE. I can see that.

Senator **Conrad**. You can proceed on your usual time. I know that you will be short.

Senator **Daschle**. I did not think physical stature had anything to do with it. [Laughter.]

Let me ask one question, and I would ask it of Mr. Page because I think he is probably the most appropriate person to ask the question of. In South Dakota, many of my smaller communities have said if you are going to deal with rural development one of the things that we would like to be able to do more efficiently is deal with an emergency situation or deal with what some would consider a small problem. It may be the need for an immediate acquisition of a new fire truck. The fire truck just completely breaks down.

They have to go buy one. It could mean an ambulance. In other words, it is a relatively small acquisition with which a town of 500 or 600 people normally would not be able to cope very effectively. They do not have $50,000. What they have indicated to us is that they would like to have a financing mechanism which would be an expedited approval of a short term, small size loan that they could use for immediate acquisition of a piece of equipment or some other problem that would be repaid in a period of perhaps no more than 24 months.

The impression I get is that that would be something that many of my small towns would find very helpful. Would that be helpful in Vermont?

Mr. **Page**. For many of our very smallest towns, it would. Medium to large towns traditionally have developed a banking relationship and can pretty quickly borrow at prevailing rates for municipal government. What we have found is not so much in small communities, but within organizations within those communities. It may be that it is not directly a municipal loan, that there is a fire district involved, a water or sewer district, perhaps a local development corporation.

One of the things that we have tried to do is to expand our lending authority within our revolving loan fund to serve the local development corporations and many times those organizations are capable of acting on behalf of water and sewer districts and fire districts, these sorts of loans. So there is some room in there to build in that kind of thing, and that may be applicable in your home State.

Senator **Daschle**. But what about yours?

Mr. **Page**. In ours it is a problem for small communities, very small communities, yes.

Senator **Daschle**. OK. Thank you, Mr. Page. That is all I have, Mr. Chairman.

Senator **Conrad**. You still have time.

Senator **Daschle**. I do not believe you.

Senator **Conrad**. Thank you very much. I want to thank this panel for your contribution here today. We very much appreciate your participation.

Next we will call our second panel. Joe Beck, board member of the Farm Credit Council, Washington, DC; Ms. Ann Cole, who will be representing the National Association of Towns and Townships; and Kaye Braaten, the third vice president of the National Association of Counties, who is also a Richland County Commissioner from Barney, North Dakota.

Welcome. If you would come to the table, we will take your testimony. I want to welcome you all and indicate that the procedure will be that we ask you to summarize your testimony. The green light will be on for 5 minutes, and at the end of 5 minutes it will go off and the red light will appear. That means your time has expired, and I want you to know that your full statements will be entered into the record and will be available to the members of the committee.

As all of you know, we are on a very tight time line. The chairman has set an exceedingly tight timeframe for us to develop the rural development legislation. And so we are trying to complete with dispatch the set of hearings necessary before the subcommittee goes through markup and then the bill goes to the full committee. We are also operating with a task force which means we have many jurisdictional areas represented.

In fact, we have really made quite remarkable progress this year. We have gone from the idea, which I expressed to the majority leader in January, to a full task force of some 33 members, many of them senior Members and chairmen of the relevant committees that all have an impact on rural development, to this set of hearings. The time schedule calls for us to have a bill reach the floor of the Senate in June.

That is probably as fast as Congress ever moves absent an emergency. So I am extremely pleased with the progress that we have already made this year and the bipartisan nature of it. We have the leadership on both sides of the aisle fully representative, onboard in an attempt to do something that is clearly necessary for the rural parts of our country. And I want to very much indicate our gratitude for your participating in this process. So with that, Mr. Beck, if you would proceed to summarize your testimony, and then we will go to questions.

STATEMENT OF JOE BECK, BOARD MEMBER, THE FARM CREDIT COUNCIL, WASHINGTON, DC, MEMBER, BOARD OF DIRECTORS, FARM CREDIT BANK OF LOUISVILLE, AND CORN AND SOYBEAN FARMER, GALVESTON, IN

Mr. Beck. Thank you, Senator Conrad.

It is indeed a pleasure to be here this morning to give this testimony on behalf of the Farm Credit Council. I am going to give you a little bit of background, and then I will try to move on so that I will be within the green light or shortly thereafter.

BACKGROUND

My name is Joe Beck. I grow corn and soybeans on a 1,400-acre farm near Galveston, Indiana. I serve on the Louisville Farm Credit Bank Board and am also a member of the Executive Committee of the Board of Directors of the Farm Credit Council, the national trade association of the Farm Credit System.

Mr. Chairman, I started farming in 1947. It was about 6 years later that I went out to the commercial bank to borrow some money, and they told me that they were not interested. It was at this time that I was introduced to Farm Credit, and I have been involved with Farm Credit ever since 1953 in that regard.

ACTIVE IN COMMUNITY

My wife, Ruth, and I have been active in our community all our lives. We know first hand the difficult choices rural communities must make when faced with a declining tax base, changes in population and the need to maintain services. In 1963 we became involved in the consolidation of four area high schools into a merged school district. Although many people did not want to change, it was clear that to assure our children the quality education they deserved, we had to come together, do a lot of hard work, compromise in some areas and move forward.

This process resulted in a merged school district which has successfully served the educational needs of our rural area for 25 years. I was a founding member of the Southeastern School Board of Walton, Indiana, serving 5½ years, including a year as its chairman.

This background is important because in southern Cass County, our efforts to address the local educational concerns were an important part of the development of our rural community.

CRITICAL ELEMENTS

Today, we would like to share with you, first, some thoughts about the critical elements of any new Federal rural development strategy from the System's perspective, and, two, why the Farm Credit System should be considered an important link in any new congressional rural development initiative, and, three, we think that you should know what limitations the Farm Credit System has in being able to meet such a role under current authorities. I have attached to my written statement, for your consideration, a brief listing of some of these limitations.

FARM CREDIT SYSTEM A CONDUIT FOR CAPITAL

As a rural businessman and a director of both a local association and a district bank, it is very obvious to me what the Farm Credit System has meant to rural America. Congress established the framework for the privately owned, cooperative institutions that comprise the System to ensure that credit was available, in both good times and bad, to farmers, ranchers, and the cooperatives that serve them. System institutions have provided both short-term operating loans and long-term real estate credit. We have financed complex, family owned agribusinesses, rural housing, rural electric and telephone systems, cooperatively organized rural water systems, large agricultural cooperatives that rank high on the list of Fortune 500 companies as well as small, local cooperatives that own perhaps just one country elevator.

When the commercial banks of our Nation moved away from working with the GSM international financing program of USDA, it was the Farm Credit System that stepped in to finance U.S. agricultural exports to developing markets. The System now has over $2.25 billion in international loans in its portfolio, and has not lost a penny in this loanmaking authority.

HISTORY OF THE FCS

A close look at the history of the Farm Credit System shows that it was chartered by Congress to serve rural America because commercial banks were not willing to meet this demand year end and year out. Commercial banks' focus was then and is today on where they can make the most profit for their stockholders. If the bottom line is not served by being in rural America, their investment will be somewhere else. That is not meant to be critical, Mr. Chairman, it is just a simple fact.

It has been the farmer owned associations and banks of the Farm Credit System which have, in large measure, served as the dependable source of credit to rural areas throughout its 73-year history. This broad purpose and public/private partnership has been recognized and reaffirmed by Congress in every major piece of farm credit legislation enacted since the System's inception.

CHANGE IN RURAL AMERICA

Mr. Chairman, as you and your colleagues on this subcommittee know, much has changed in rural America since those early days. Agriculture is no longer the predominant business enterprise of the county. Less than one-third of all nonmetropolitan counties are considered to be dependent on agriculture. Within the least 35 years, the farm labor force has dropped by 65 percent. Farmers today account for less than 3 percent of the population, less than one-fifth the level in the early 1960's. Perhaps of greatest relevance to this hearing is the fact for at least the last decade, upwards of 30 percent of total farm income came from off-farm sources. The vitality of the rural business community is essential to the vitality of the agricultural community.

Earlier this year, the Farm Credit Council's membership unanimously adopted a policy statement on rural development. This resolution read in part:

> The availability of competitively priced credit in rural areas is essential for economic growth to take place. System institutions are well situated to serve the broader credit needs of rural areas including the financing of rural infrastructure. Further, a more diversified loan portfolio would strengthen System institutions, permitting them to better serve their traditional clientele.
>
> Accordingly, the Farm Credit Council will support legislation to preserve and enhance the role of System institutions in financing creditworthy rural enterprises, both community based and private, while maintaining the existing farmer and farmer-cooperative ownership of the Farm Credit System.

Based on this resolution and our historical commitment to the financing of rural America, we would like to offer these broad suggestions for consideration as you move forward with legislation.

SUGGESTIONS

Rural communities are struggling to improve or install water and waste disposal systems to meet Federal health and safety standards. USDA's Economic Research Service estimated last spring that rural communities must have $20 to $40 billion in capital expenditures to bring water and wastewater treatment facilities up to national standards. These local infrastructure projects require that there be a lender capable of offering fixed rate, long-term loans. That intermediary between the complex financial marketplace of Wall Street and the rural community could be the Farm Credit System.

Rural communities are seeking alternative financing sources to current government Federal loans or grants. System institutions are very interested and willing to finance creditworthy community infrastructure projects which may never be funded by FmHA, because of the backlog of qualified applications. Under the limited authority in the 1986 Budget Reconciliation Act, System institutions are authorized to refinance certain Federal community facility and business loans. Many of the communities involved readily admit that they would borrow from System lenders if they could. This is not in any way a replacement for FmHA's community development loan programs.

Many business opportunities exist for farmers and others who seek to add value to raw agricultural products through processing and marketing. System institutions are severely limited in their ability to meet the credit needs of these individuals. With minor changes to existing authority, the System can assist these individuals in developing these new rural businesses. Financing this activity is entirely compatible with and complementary to the System's ongoing lending program.

CONCLUSION

In the essence of time, Mr. Chairman, you would have the rest at your disposal to read. I would just say that there is no institution that has a greater stake or is better positioned to assist in the carrying out of a new policy for the development of rural America. I thank you for your time.

Senator CONRAD. Thank you very much. In exercising the chairman's prerogative instead of going through the whole panel, I think I will ask Mr. Beck a couple of quick questions that will follow better in the flow of the record and then go to our next two witnesses.

Have you had a chance to review the sewer and water lending by banks for cooperatives provisions of the proposed bill?

Mr. BECK. No, I have not. No.

Senator CONRAD. The essence of it is that right now Farm Credit System is allowed to participate in loans of that nature, sewer and water loans. The provisions of this bill would extend that. Not only would they be allowed to participate, they would also be allowed to be an originator. They would be allowed to make those loans on the front end.

Mr. BECK. That would be fine.

Senator CONRAD. And that is what I am interested in getting. What is your reaction to that? I assume that that is something that the Farm Credit System would welcome?

Mr. BECK. Right. That is a policy move for us. We feel like what we are attempting to do today, Senator, was just try to give you our position that we are out there. We feel like we have the people there. We have offices in virtually every county in the United States. We feel like we have the expertise to contribute, but we would just need some authorities changed a little bit, and you suggested this in one area. And we would welcome that.

Senator **Conrad**. Let me raise the tough question now because it is fair to say we are running into some resistance from the banking community.

Mr. **Beck**. Right.

Senator **Conrad**. We are very frankly running into some other resistance, and that resistance is that there is some feeling that the Farm Credit System has not aggressively implemented the Agricultural Credit Act of 1987, specifically in looking at what various districts have done on restructuring. They look at what St. Paul and Omaha have done, which have really been to lead the way in the Farm Credit System, and then they have looked at other districts including yours that have not been as forthcoming in the restructuring area. The question arises why should we extend any further authority to the Farm Credit System when it is not now actively and in good faith implementing the Agricultural Credit Act of 1987? What would be your response to those critics?

Mr. **Beck**. Are you referring to the borrower rights of it that we are not——

Senator **Conrad**. Yes. The restructuring provisions. To be specific, many complaints have been heard that the restructuring process of the Farm Credit System is not clear to people, unlike that of FmHA. It has not been standardized. It is being implemented in an inconsistent way from district to district and even within districts. It is not clear to borrowers on what basis they will be restructured.

Those are the set of complaints that have been made. Then if you look at the specifics of what each district has done, and I have those statistics with me here, you see very, very uneven performance district to district. Again, St. Paul and Omaha are clearly leaders. Other districts are doing very little.

How would you answer that criticism? The basic criticism being, look, why should we extend further authority to them when they have not really stepped up to the plate with respect to the 1987 Credit Act?

Mr. **Beck**. Well, Senator, I would have to answer this way, that your criticism on some districts is probably very valid. I would not argue that, but as a member of the district board from northern Indiana where we were very hard hit, where we had many restructurings, and probably if there were a bunch of phone calls coming, they were coming from northern Indiana in our district, right around my home place, but I would have to challenge that criticism that we have not done everything possible in our area.

Now I sit on the loan restructuring committee where we went out and visited with these farmers and a lot of it was misunderstanding on what the procedure was. But after visiting with them in most cases they went away satisfied that we had handled their case appropriately and that we had been fair and that we did what should be done to try to keep that farmer down on the farm.

I cannot answer for the internal things that happened in other districts, but I feel like that if you would really check the figures that we have improved greatly in the last year, that there has been a lot of movement toward succeeding in this process, and I would also tell you that it would be very hard to standardize completely a way to deal with every farmer. When you talk to each farmer, it is on a different basis. Some have livestock. Some do not. There is a multitude of operations and they all have different situations. And you have to just about deal with each one on an individual basis, and it would be hard to just standardize it across the board. You would be unfair to some of the participants.

Senator CONRAD. Well, you understand that if you are a borrower and there is no clear criteria by which one is judged, it makes it very difficult for people to feel some sense of confidence in the system. We have had that criticism leveled, and I want to draw it to your attention.

I would also like to share with you the numbers for your district which I find troubling.[2] So I wanted to give you a chance to answer that question because we are hearing that with some regularity here. I wanted you to have the opportunity to answer it on the record.

Mr. BECK. I appreciate it.

Senator CONRAD. Thank you very much for your participation. Next we will hear from Ms. Ann Cole, National Association of Towns and Townships. Welcome.

[Senator Conrad's material and the prepared statement and attachment of Mr. Beck follow:]

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[2] See pages 270 and 271 for this material.

COMBINED FCBs and Associations
(including FICB of Jackson and Jackson FLB/FLBA in receivership)
LOAN PERFORMANCE INFORMATION
DECEMBER 31, 1988

	Springfield	Baltimore	Columbia	Louisville	Jackson	St. Louis	St. Paul	Omaha	Wichita	Texas	Sacramento	Spokane	Combined
LOAN AMOUNTS (In Thousands)													
Performing	$1,457,234	$2,595,745	$3,662,583	$2,855,964	$1,121,074	$2,821,085	$3,925,136	$2,940,645	$2,974,997	$2,669,498	$4,354,356	$2,293,234	$33,671,551
Restructured (SFAS No. 15)*	1,039	17,703	17,238	128,428	21,338	86,666	796,808	451,023	131,405	2,160	204,992	46,278	1,905,078
Other High-risk	12,532	46,185	71,347	105,708	220,464	126,218	831,330	157,302	262,929	154,998	434,937	123,519	2,547,469
Nonaccrual	9,367	28,075	287,498	254,503	237,548	359,505	730,299	165,573	259,007	154,220	433,386	395,403	3,314,384
Total Loans	$1,480,172	$2,687,708	$4,038,666	$3,344,603	$1,600,424	$3,393,474	$6,283,573	$3,714,543	$3,628,338	$2,980,876	$5,427,671	$2,858,434	$41,438,482
NUMBER OF LOANS													
Performing	24,003	49,413	75,211	79,268	20,232	57,652	76,602	52,398	47,484	41,675	25,360	30,707	580,005
Restructured (SFAS No. 15)*	16	43	76	573	92	680	5,407	3,280	897	12	199	210	11,485
Other High-risk	177	553	1,049	1,718	2,392	1,139	9,240	1,196	704	1,395	978	1,064	21,605
Nonaccrual	111	356	2,855	4,114	2,923	4,092	6,574	1,816	1,885	1,319	1,078	2,633	29,756
Total Loans	24,307	50,365	79,191	85,673	25,639	63,563	97,823	58,690	50,970	44,401	27,615	34,614	642,851

*Restructured loans consist of accruing loans on which monetary concessions have been granted to borrowers. For purposes of this report, this classification does not include loans on which monetary concessions have been made that remain in nonaccrual status nor loans on which repayment extensions and reamortizations have been granted to borrowers.

FARM CREDIT SYSTEM
DISTRICT TOTALS
KEY INDICATORS
Comparison of Third Quarter 1988 Actual to Third
Quarter Forecast and Second Quarter 1988 Actual
(Rounded to Nearest $0.1 Million)

	Accruing Loan Volume			Non-Accrual Loan Volume			Loans to Non-Accrual Status			Amount of Loans Restructured			Net Amount of Loans Charged off		
	Three Month Actual 9-30-88	Three Month Forecast 9-30-88	Three Month Actual 6-30-88	Three Month Actual 9-30-88	Three Month Forecast 9-30-88	Three Month Actual 6-30-88	Three Month Actual 9-30-88	Three Month Forecast 9-30-88	Three Month Actual 6-30-88	Three Month Actual 9-30-88	Three Month Forecast 9-30-88	Three Month Actual 6-30-88	Three Month Actual 9-30-88	Three Month Forecast 9-30-88	Three Month Actual 6-30-88
1) SPRINGFIELD	$1,568.5	$1,485.6	$1,513.2	$9.5	$13.6	$11.4	$0.1	N/A	$0.6	$0.0	N/A	$0.0	$0.0	N/A	$0.0
2) BALTIMORE	2,675.0	2,585.6	2,639.7	30.0	33.9	30.1	4.0	N/A	3.4	0.0	N/A	0.2	0.2	N/A	0.5
3) COLUMBIA	4,091.4	4,369.5	4,228.9	328.9	274.8	359.1	10.6	N/A	27.2	35.9	N/A	0.0	1.1	N/A	2.6
4) LOUISVILLE	3,627.2	3,382.5	3,653.2	279.9	304.3	303.3	20.8	N/A	22.2	0.0	N/A	0.0	3.4	N/A	(0.0)
5) JACKSON *	1,910.6	1,986.9	1,945.5	408.9	401.3	349.8	8.7	N/A	1.4	0.0	N/A	0.2	2.8	N/A	1.7
6) ST. LOUIS	3,614.8	3,376.7	3,671.5	425.7	453.9	473.0	16.4	N/A	32.2	0.0	N/A	0.0	1.5	N/A	5.8
7) ST. PAUL	6,610.4	6,645.7	6,734.8	823.9	838.0	890.6	49.4	N/A	66.7	24.3	N/A	24.2	6.1	N/A	8.2
8) OMAHA	3,980.4	3,666.4	4,037.5	290.5	401.9	364.0	28.6	N/A	61.8	0.0	N/A	0.0	(2.7)	N/A	(5.9)
9) WICHITA	3,914.3	3,808.9	3,886.6	281.3	304.5	377.6	33.1	N/A	72.8	3.2	N/A	3.5	(1.6)	N/A	0.4
10) TEXAS	3,055.4	3,015.6	3,072.8	178.2	179.8	174.0	17.8	N/A	24.3	0.0	N/A	0.8	9.2	N/A	7.1
11) SACRAMENTO	5,534.4	5,522.9	5,527.1	570.7	517.9	658.3	26.0	N/A	82.2	3.6	N/A	2.9	10.1	N/A	5.7
12) SPOKANE	2,771.4	2,738.7	2,763.4	448.8	482.1	476.1	27.2	N/A	25.1	5.7	N/A	18.0	2.7	N/A	(30.5)
13) CBC	5,153.2	4,103.1	4,997.7	0.0	35.0	0.0	0.0	N/A	0.0	0.0	N/A	0.0	0.8	N/A	0.1
TTL Before Consolidation	48,507.0	46,680.1	48,671.9	4,076.3	4,241.0	4,467.3	243.7	N/A	419.9	72.7	N/A	49.8	32.8	N/A	(4.3)
Elimination Entries	0.0	0.0	(29.1)	0.0	0.0	0.0	0.0	-	0.0	0.0	-	0.0	2.3	-	0.0
Fin. Asst. Corp.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-	0.0
TOTAL SYSTEM	$48,507.0	$46,680.1	$48,642.8	$4,076.3	$4,241.0	$4,467.3	$243.7	N/A	$419.9	$72.7	N/A	$49.8	$35.1	N/A	($4.3)

* The FLB/FLBA of Jackson was placed into receivership on May 20, 1988, thus its 9/30/88 forecast data is not available. For comparability, Jacksons's 9/30/88 forecast amounts include the FICB forecast data as well as actual 9/30/88 data for the FLB/FLBA of Jackson in receivership. Also, Jackson's "Loans to Non-Accrual Status" and "Amount of Loans Restructured" actual data does not include the FLB/FLBA of Jackson in receivership.

THE FARM CREDIT COUNCIL
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Statement of
Joe Beck, Member of the Board, The Farm Credit Council
before the
Subcommittee on Rural Development and Rural Electrification
Senate Committee on Agriculture, Nutrition, and Forestry
May 16, 1989

Mr. Chairman, and Members of the Committee.

My name is Joe Beck. I grow corn and soybeans on a 1400 acre farm near Galveston, Indiana. I serve on the Louisville Farm Credit Bank Board and am also a member of the Executive Committee of the Board of Directors of The Farm Credit Council, the national trade association of the Farm Credit System.

Mr. Chairman, I started farming in 1947. It was six years later when I went out on my own that I needed to borrow money. I went to a commercial bank and they told me they weren't interested. That's when I was introduced to Farm Credit. My first loan was from the Logansport office of the Peru PCA in 1953. I've been a borrower and a stockholder ever since. In 1976, I was elected to serve on the Peru PCA board. I also served four years as chairman of the Louisville District's PCA Advisory Committee, and in 1986, I was elected to the Louisville District Board.

My wife, Ruth, and I have been active in our community all our lives. We know first hand the difficult choices rural communities must make when faced with a declining tax base, changes in population and the need to maintain services. In 1963, we became involved in the consolidation of four area high schools into a merged school district. Although many people didn't want to change, it was clear that to assure our children the quality education they deserved, we had to come together, do a lot of hard work, compromise in some areas and move forward.

This process resulted in a merged school district which has successfully served the educational needs of our rural area for 25 years. I was a founding member of the Southeastern School Board of Walton, serving 5 1/2 years, including a year as its chairman.

This background is important because in southern Cass County, our efforts to address local educational concerns were an important part of the development of our rural community. It was community involvement and leadership that led to a stronger school curriculum, and equally important, to business expansion, a new housing development, and expanded water and sewer systems. It was a very important period of rural development for Cass County.

Today, we would like to share our thoughts about the critical elements of any new Federal rural development strategy from the System's perspective, and why the Farm Credit System should be considered an important link in any new Congressional rural development initiative. Lastly, we think that you should know what limitations the Farm Credit System has in being able to meet such a role under current authorities. I've attached for your consideration a brief listing of some of these limitations.

As a rural businessman and a director of both a local association and a district bank, it is very obvious to me what the Farm Credit System has meant to rural America. In its most basic form, this role has been to provide a conduit for capital from the Nation's money markets to rural areas. Congress established the framework for the privately owned, cooperative institutions that comprise the System to ensure that credit was available, in both good times and bad, to farmers, ranchers and the cooperatives that serve them. We finance the most creative group of risk-takers in this country--America's farmers. System institutions have provided both short-term operating loans and long-term real estate credit. We have financed complex, family-owned agribusinesses, rural housing, rural electric and telephone systems, cooperatively organized rural water systems, large agricultural cooperatives that rank high on the list of Fortune 500 companies, as well as small, local cooperatives that own one country elevator.

When the commercial banks of our nation moved away from working with the GSM international financing program of USDA, it was the Farm Credit System that stepped in to finance U.S. agricultural exports to developing markets. The System now has over $2.25 billion in international loans in its portfolio, and hasn't lost a penny in this loan making authority.

A close look at the history of the Farm Credit System shows that it was chartered by Congress to serve rural America because commercial banks were not willing to meet this demand year in and year out. Commercial banks' focus was then and is today on where they can make the most profit for their stockholders. If the bottom line is not served by being in rural America, their investment will be somewhere else. That's not meant to be critical, Mr. Chairman, it's a simple fact.

It has been the farmer-owned associations and banks of the Farm Credit System which have, in large measure, served as the dependable source of credit to rural areas throughout its seventy-three year history. This broad purpose and public-private partnership has been recognized and reaffirmed by Congress in every major piece of Farm Credit legislation enacted since the System's inception.

Mr. Chairman, as you and your colleagues on this Subcommittee know, much has changed in Rural America since those early days. Agriculture is no longer the predominate business enterprise of the country. Less than one-third of all non-metropolitan counties are considered to be dependent on agriculture. Within the last 35 years, the farm labor force has dropped by 65 percent. Farmers today account for less than 3 percent of the population, less than one-fifth the level in the early 1960s. Perhaps of greatest relevance to this hearing is the fact that for at least the last decade, upwards of 30 percent of total farm income came from off-farm sources. The vitality of the rural business community is essential to the vitality of the agriculture community.

Earlier this year, The Farm Credit Council's membership unanimously adopted a policy statement on rural development. This resolution read in part:

> "The availability of competitively priced credit in rural areas is essential for economic growth to take place. System institutions are well situated to serve the broader credit needs of rural areas including the financing of rural infrastructure. Further, a more diversified loan portfolio would

> strengthen System institutions, permitting them to better serve their traditional clientele.
>
> "Accordingly, the Farm Credit Council will support legislation to preserve and enhance the role of System institutions in financing credit-worthy rural enterprises, both community-based and private, while maintaining the existing farmer and farmer-cooperative ownership of the Farm Credit System."

Based on this resolution and our historical commitment to the financing of rural America, we would like to offer these broad suggestions for consideration as you move forward with legislation:

o Rural communities are struggling to improve or install water and waste disposal systems to meet Federal health and safety standards. USDA's Economic Research Service estimated last Spring that rural communities must have $20-40 billion in capital expenditures to bring water and wastewater treatment facilities up to national standards. These local infrastructure projects require that there be a lender capable of offering fixed-rate, long-term loans. That intermediary between the complex financial marketplace of Wall Street and the rural community could be the Farm Credit System.

o Rural communities are seeking alternative financing sources to current government Federal loans or grants. System institutions are very interested and willing to finance creditworthy community infrastructure projects which may never be funded by FmHA, because of the backlog of qualified applications. Under the limited authority in the 1986 Budget Reconciliation Act, System institutions are authorized to refinance certain Federal community facility and business loans. Many of the communities involved readily admit that they would borrow from System lenders if they could. This is not in any way a replacement for FmHA's community development loan programs.

o Many business opportunities exist for farmers and others who seek to add value to raw agricultural products through processing and marketing. System institutions are severely limited in their ability to meet the credit needs of these individuals. With minor changes to existing authority, the System can assist these individuals in developing these new rural businesses. Financing this activity is entirely compatible with and complementary to the System's ongoing lending programs.

These are but three of the vital areas where there is a clear need which the System can meet.

We would also suggest that there are certain fundamental principles which should be applied to any Federal rural policy. These include:

o leadership for any development project from within the local community;

o local commitment to any project proposed;

o outside expertise to help identify local resources which can help channel and build upon local strengths;

- o community ownership, direction and a partnership in funding;
- o financing of any rural enterprise on a sound business basis to help ensure the long-term survival of the enterprise financed;

The Farm Credit System can support and enhance the sound economic development of Rural America. The following are some of the strengths which the System brings to this process:

- o a long-established track record in meeting the highly diverse, complex financial needs of farm, cooperative and utility lending. System institutions are the only lenders to exclusively serve Rural America. Today, the System has upwards of 600,000 loans outstanding to farmers and to several thousand farmer cooperatives.
- o experience in financing rural home loans. To date, local Farm Credit institutions have made 43,000.
- o skilled loan officers and appraisers who understand the factors that affect the success of rural businesses.
- o an established delivery system which includes 269 locally owned associations which serve all regions of the country, and an established Bank for Cooperatives structure which serves eligible cooperative borrowers throughout the country. This total delivery system is second to none in rural America. It is in place with credit professionals and experts who can provide technical assistance to meet an even larger demand in Rural America.
- o procedures in place to minimize risk, based upon cash flow lending, proper collateral and loan documentation procedures.

Mr. Chairman, while we examine ways in which the Farm Credit System can more effectively assist and stimulate rural economic development, **the System will not jeopardize any of its existing services to current customers.** Yes, we believe that lending to a broader base of customers will help diversify the System's loan portfolio and thereby strengthen each institution's ability to withstand the inherent cyclical economic problems of agriculture. To the extent that the Farm Credit System can help strengthen the rural economy in general, agriculture will ultimately reap the rewards.

There should also be a careful review of the current limitations on the System's authorities to meet future needs in Rural America. We would again direct your attention to the attachment to my statement which highlights some of these issues.

Mr. Chairman, just as you and your colleagues determined that there was a need for "Farmer Mac" to increase competition in what have been our traditional markets, there is a need to ensure that the Farm Credit System is an equal player in any new strategy on rural development.

Congress should not invent a new bureaucracy to serve Rural America. Like a number of other Federal programs that were created in the earlier part of this century, the Farm Credit System can help meet the objectives which Congress intends. But while agriculture and commercial banking have changed dramatically over the past 35 years, the Farm Credit System's lending authorities have not. The System's principal concerns are that efforts be directed to credit-worthy activities, be related to the System's expertise, and be of benefit to the System's owners.

Mr. Chairman, no other institution has a greater stake or is better positioned to assist in the carrying out of a new policy for the development of Rural America. We stand ready to help.

Mr. Chairman, there is one final issue that is relevant to the issue that is being discussed here today. The Agricultural Credit Act of 1987 established an insurance program with premiums based on outstanding loans. The program is designed to protect investors in System bonds.

There is, however, a technical problem with the law which requires the System to pay insurance on loans guaranteed by FmHA, the Commodity Credit Corporation and the Rural Electrification Administration (REA). Since the System is unlikely to experience any financial losses on federally guaranteed loans--the only, effect of the premium is to make System lenders noncompetitive for such loans which normally have lower interest rate margins because of the reduced risk. Clearly, the rural economy benefits from credit extended by the System and supported by Federal guarantees. We should encourage, not discourage, participation in Federal loan guarantee programs. We intend to ask Congress to remedy this problem and would appreciate your support.

Thank you for the opportunity to testify here today.

(Attachment--Current Limitations of Present Farm Credit Systems Authorities to Assist Rural Development Efforts follows:)

Current Limitations of Present Farm Credit System Authorities to Assist Rural Development Efforts

Population limit for rural home lending inconsistent with the FmHA definition of rural areas.

The current limit that a town or village cannot exceed 2500 persons is much too narrow, and inconsistent with other Federal definitions of rural areas.

Fifteen percent limitation for rural home lending restricts rural home development.

The 15 percent limitation on institutions' portfolio lending for rural homes should be increased or eliminated. This limitation represents an unnecessary constraint on the availability of credit for rural home purchasers who want dependable lenders that can provide a constant source of financing.

The 20 percent through-put requirement on basic processing and marketing loans restricts the System's ability to finance related operations essential to current borrowers.

Under present authority, a farmer who receives System financing for processing or marketing enterprises must grow at least 20 percent of the product. This is an arbitrary standard, and not realistic in view of the rapid changes taking place in processing and marketing. Many times System institutions have been put in the position of helping a farmer to get started in business, but then having to end a positive lending relationship because of this arbitrary standard.

In several areas of the country there are examples of processing operations which may not get credit because the operations are not supported, in part, by growing/harvesting activities. In the State of Maine, for example, there are a number of wood processing and manufacturing facilities which cannot be financed because they do not meet the harvesting or growing requirement. Nonetheless, these are businesses which could benefit from the financing alternatives which competition among lenders brings, and that is of critical importance to the success of current Farm Credit System borrowers in their own operations.

Eliminate reference to "on-farm" for related businesses.

System institutions are authorized to lend to agriculture-related businesses, but only to the extent that the business is conducted "on-farm." This limits financing for many agricultural service operations. For example, a Farm Credit association is currently evaluating a forestry equipment sales/service company which has requested a line of credit. The service segment of the business is eligible under the farm-related business guidelines, but this accounts for only a small percentage of the company's total sales. For the borrower, his/her financing alternatives are limited because of the inability of the System to fully compete because of the current limitation.

Authorize System institutions to do rural community infrastructure lending.

Many rural communities have credit needs that can no longer be met under Federal programs, but are also not large enough to attract the interest of investment bankers. If authorized to do so, System institutions could assist in financing rural community development projects including wastewater treatment facilities, water treatment systems, community health centers, community fire departments, etc., and with the addition of Federal guarantees, other communities could be helped.

STATEMENT OF ANN COLE, NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS, WASHINGTON, DC

Ms. COLE. Thank you, Mr. Chairman. I am testifying in the stead of Jeffrey Schiff, who is our executive director. He threw his back out yesterday and so he was not able to come and he sends his apologies. I am also testifying on behalf of the National Association of Towns and Townships, which represents over 13,000 units of general purpose local governments across the country. I am also here today on behalf of a recently formed local government coalition dedicated to passage of a rural economic development bill this year.

RURAL DEVELOPMENT LEGISLATION: A PRIORITY FOR LOCAL GOVERNMENT ORGANIZATIONS

This coalition consists of the National Association of Counties, the National Association of Development Organizations, the National Association of Regional Councils, the National League of Cities, the National Rural Water Association, and of course, our own association.

We formed a common position on rural development legislation. It has been submitted as part of the record and it is attached to our testimony.

I cannot stress the importance of the coalition's position too much. As you know, Mr. Chairman, it is rare for local government organizations to come to common agreement. The fact that we have done so says much about the recommendations we propose.

LOCAL GOVERNMENT AS THE FRAMEWORK

The foundation of our position is that an integral role for local government must be provided in rural development initiatives.

Long-term economic development requires the commitment of the entire community beginning with land use planning and zoning decisions. It requires capital; it often requires long-term investment, and in some instances it requires subsidization of operating costs until a project becomes self-sustaining. Some projects, such as those involving infrastructure, require long-term operating expenses that may never be recouped in the form of user fees or profits. Only governments have the authority to raise tax dollars or issue tax-exempt bond obligations for major projects.

In addition, Mr. Chairman, local governments are the only appropriate development entities which exist everywhere across this country. These public bodies offer a flexible delivery network which can assure access for any kind of support which Congress provides under the proposed legislation.

A ROLE FOR LOCAL GOVERNMENT INSTITUTIONS

Local governments also have cooperative institutions in place which have a great deal of experience in economic development programs.

These multijurisdictional planning bodies facilitate regional approaches, encouraging the success of such projects; they also address the problems posed by economies of scale, by taking on major projects that small governments alone could not handle.

BUILDING CAPACITY IN LOCAL COMMUNITIES

Seventy-two percent of general purpose governments across this country serve communities with less than 3,000 people. In rural America, many elected officials serve on a part-time basis, as you know. They lack the in-house resources and expertise to address complex economic development problems. Increasing Federal support for technical assistance and strategic planning is absolutely crucial because through these mechanisms local officials can plug into the various networks which, in turn, allow them to compete successfully for Federal and State support. The coalition's paper addresses the need for broad based capacity building programs, Mr. Chairman, and we urge that you take a look at those as you pursue this legislation.

OTHER CRITICAL AREAS THAT SHOULD BE ADDRESSED

Beyond the coalition's position, there are several points which our association would like to make today. We understand that a bill may be produced today or by the end of the week. In the absence of having reviewed this proposal, we would like to take this opportunity to make general statements about legislative proposals and to raise specific concerns we have about the process.

THE NEED FOR COORDINATION

Mr. Chairman, there has been a great deal of activity here on the Hill on behalf of rural America which we are very excited about. New ideas are emerging from House and Senate committees from individual Members of Congress and also from the new Rural Development Task Force established by Majority Leader Mitchell.

At the same time, Mr. Chairman, we are concerned that these efforts must be coordinated, and that necessary leadership must be assumed in order to ensure final passage of a workable solution. The problems in rural America, as we all know, are overwhelming. The task looms large and the solution must be comprehensive—one that has to be formulated beyond the jurisdiction of this one committee. The task force may be an important vehicle in which to coordinate these efforts. It sounds to me like you all are working very hard on that right now, and we certainly encourage you to continue to use that mechanism.

In addition, we urge that the Senate Agriculture Committee coordinate its efforts with a number of other committees which have legitimate interests in rural economic development issues. Without such coordination, it is our fear that we may lose this window of opportunity in a cross-fire over the costs of funding priorities and jurisdictional concerns.

COORDINATING A COMPREHENSIVE SOLUTION ON INFRASTRUCTURE

Coordination is particularly important in the area of infrastructure development. Obviously, it would be difficult for this committee to devise an effective solution to the overwhelming needs of rural America all by itself. At the same time, however, we cannot expect rural economic development to be long-lasting without addressing the infrastructure component of the problem. We recognize, of course, that this is an extremely costly item, but we know that you agree that we have to begin.

To that end, we ask that this committee coordinate with the appropriate authorizing committees to raise the level of awareness of rural infrastructure needs and how they relate to economic development. This is particularly important as we approach the reauthorization of the Federal Highway System and funding for the Community Development Block Grant Small Cities Program.

COMMUNITY BASED PARTNERS

With regard to community based organizations, our position is not to exclude them.

When the full committee addressed rural economic development legislation last year, the role of community based, nonprofit organizations in rural economic development was discussed at great length. We worked very hard to forge a compromise position with representatives of community based, nonprofit organizations. The compromise language we agreed to required nonprofit organizations to consult with local governments and to certify that their proposal is consistent with locally developed economic development planning when seeking Federal funding. In fact, this language was accepted as a committee amendment in markup last year and it continues to be the position of our association.

We believe that this consultation and consistency requirement is absolutely critical in order to ensure long-term success of any rural development program. The various actors should not act independently and any legislation must encourage such cooperation.

IMPROVING THE FEDERAL DELIVERY MECHANISM

Finally, Mr. Chairman, our association believes that a successful rural economic development proposal must address the chronic problem of getting help out into rural America. On what basis will the Federal Government make funding decisions? How will it know what projects are important to rural economic development—to the region and as well as the individual governments?

We believe that a strategy must be devised which helps to direct rural economic development funds to the neediest communities, rather than to those who write the best proposals.

We urge that the committee investigate delivery mechanisms that are based on State and locally developed strategies. The Community Development Block Grant Small Cities Programs is a good example.

CONCLUSION

In conclusion, Mr. Chairman, we commend you and the committee for your interest in this vital issue and we urge you to play a strong leadership role in encouraging final passage of a comprehensive rural economic development package. We certainly are here to work with you and will do anything we can to help get this legislation going. Thank you very much.

Senator CONRAD. Thank you very much. I appreciate that testimony. I appreciate the pitch you made for cooperation and the importance of getting all of the players together. In the original suggestion that I made to the majority leader on forming a task force, I urged him to do it on two bases. One, that all of the players in rural development be brought together.

I urged that the chairman of the Agriculture Committee be the chairman of the task force but that all of the relevant committees, such as the Finance Committee and Labor and Human Resources, be brought together including the appropriators so that we get everybody in the same room and are not faced with this endless problem of sequential reference from one committee to another committee.

And that is exactly what has been done. So in the first meeting, we had housing represented. We had finance represented. We had all of the committees of jurisdiction that have a role to play in the umbrella of the Rural Development Task Force. I think we learned last year that to do something meaningful, it must, No. 1, be done with all of those who have a piece of the pie, and No. 2, it must be bipartisan.

If those two standards are not met, not much is going to happen. So I thought your recommendations were right on target. The other point you made that I thought was especially important is the whole notion that infrastructure is central to what we do here. You also targeted the problem there, and that is it is very costly. We have to convince our colleagues that, in fact, there is a special problem that has hit rural America. Those of us who live there know it. But we have to be able to convince our colleagues.

Tell me what you would do if you were in our position. What would you do to help convince some of our colleagues who are from more urban areas—that also have their very special problems—that rural America ought to get some special assistance at this point?

Ms. Cole. Well, I am so glad you asked that question. Actually we have had something going at the association for quite awhile now. Traditionally, the rural areas are looked on as an afterthought or something that you have to solve. As though they are a big problem. We think that rural areas are the solution to what will be happening in the future. If you step back and look at what has happened in our country over time, the Federal Government has been pulling money out of the rural areas and throwing it into the big urban areas. That is fine.

But look at what is happening in the big urban areas. There are no alternatives for those people anymore. You know the people who leave the rural areas go to these urban areas—there is no housing, there are no jobs. The infrastructure problems are terrific in larger municipalities. We think that there should be some viable alternatives for people who live in big cities.

A recent Gallup Poll states that a lot of people—if they were given an opportunity, and if there were jobs out there—would move to rural areas. And we think particularly now with the whole telecommunications evolution that the public is ahead of this curve. There is a lot going on in rural America, and that is the answer that we need. We cannot continue, I do not think, to exacerbate the problems by taking the money out of rural areas, and throwing it into urban areas which in turn creates more congestion and more problems. When you do this you are creating an endless situation that does not make a whole lot of sense. We have to have healthy, viable alternatives for people.

If you market them correctly, people love alternatives. They love choices, and we think that that is what is possible. I think that is where this country is going.

Senator CONRAD. You have hit perhaps my first priority which is to try to convince my colleagues in government and in the private sector that there is an enormous opportunity out in rural America especially with the telecommunications age. We have a perfect example in North Dakota. A fellow named Hal Rosenbluth who has a travel firm in Philadelphia, the third largest in the country, saw the drought story night after night on television, decided he was going to do something to help out, and put 40 temporary jobs in the small town of Linton, North Dakota. It worked out so well that he has now made them permanent. He is now expanding the operation there. It is going to become a reservation center.

He is completely sold on relocation for his own company, because not only did he find that the accuracy of the work was dramatically better than in more urban part of the country, he also found it saved him 40 percent on the bottom line cost of his operation. He is so sold that several weeks ago, he invited me to Philadelphia to tell the story to other corporate leaders. We had a series of breakfasts, dinners, and meetings in which we made presentations on what rural parts of the country, specifically North Dakota, have to offer in this very area.

So we really do think there is a major opportunity. One part of this legislation, by the way, is for the Agriculture Department to survey its own operations to see which of its services could be located in rural areas that are now in urban areas. I assume from your comments that you would support that approach?

Ms. COLE. Oh, we definitely would, and I think States need to look to see what they can do to decentralize their government, too, and to help educate the people in the rural areas to what telecommunications can mean to them. There is a great, great deal going on in this country already in that regard, and I think what we need to do is probably bring some of those things together and get them out there as examples of the kinds of things that can happen.

Senator CONRAD. We held a Data Day in North Dakota several months ago. We invited economic development leaders, community leaders, presidents of the State universities and major business leaders of the State to a half-day seminar trying to get them to catch this vision. The results of that have been terrific. We have communities that have now gone back and pulled in their people who have clients or who have customers, who have large data bases and are approaching their people and saying, look, why not locate in North Dakota. Why not do it out here in a rural area where your costs would be down, the workforce has a strong work ethic, absenteeism would be much less than what you face and virtually no drug problem. These are things that we need to be talking about.

Ms. COLE. That is right. And we hope that on your task force you will share some of this vision with the other members as well, because it is wonderful to get those jobs out there, but as you know, there has to be a road for them to travel. We have to have the potholes and the bridges repaired and all that business taken care of. Thank you.

Senator **Conrad**. That is right. Thank you very much.

[The prepared statement of Mr. Schiff and the common position on rural development legislation follow:]

TESTIMONY OF THENATIONAL ASSOCIATION OF TOWNS AND TOWNSHIP BEFORE THE SUBCOMMITTEE ON RURAL DEVELOPMENT AND RURAL ELECTRIFICATION OF THE SENATE AGRICULTURE COMMIT-TEE FOR HEARINGS ON RURAL ECONOMIC DEVELOPMENT, MAY 16, 1989

Mr. Chairman, and distinguished members of this committee, I am Jeffrey Schiff, executive director of the National Association of Towns and Townships (NATaT), which represents more than 13,000 mostly small, mostly rural general purpose local governments across the United States. I am also here today on behalf of recently-formed local government coalition dedicated to passage of a rural economic development bill this year.

RURAL DEVELOPMENT LEGISLATION: A PRIORITY FOR LOCAL GOVERNMENT ORGANIZATIONS

Mr. Chairman, we commend your subcommittee for holding this hearing today. We believe that the task that you and the full committee have undertaken is crucial to the future of small town and rural America. In fact, we feel so strongly that the rural government community -- the National Association of Counties, the National Association of Development Organizations, the National Association of Regional Councils, the National League of Cities, the National Rural Water Association, and of course our own association -- have come together in support of rural economic development legislation this year. We have formed a common position on rural development legislation which I ask be submitted for the record at this time; I believe that you and the other committee members have already received copies of the position paper which each of our organizations has approved.

I cannot stress the importance of the coalition's position too much. As you know, Mr. Chairman, it is rare for local government organizations to come to common agreement. The fact that we have done so says much about the recommendations we propose. I raise this issue not because we are searching for any "pats on the back," but because I strongly believe that our agreement is indicative of the priority with which we view this legislation, and our recognition that only by working together, can we develop realistic and long lasting solutions. I appear before today on behalf of these various governmental organizations, to urge that we come together on these issues and secure a workable bill this year.

THE COALITION'S POSITION: A SOLID FOUNDATION FOR CHANGE

The paper I refer to, Mr. Chairman, speaks to the issue of local government participation as the key to rural development. It lays out our common position on capacity building, small business assistance, infrastructure, and human services. The document clearly states a number of recommendations in each of these areas which I urge this committee to consider. Briefly, I draw this committee's attention to several important points addressed in the coalition's document.

Local Government as the Framework

The foundation of our position is that an integral role for local government must be provided in rural development initiatives. Local governments are entrusted by the public with planning for and organizing development projects, and for ensuring in this process that any new proposals are in keeping with long-term economic development goals for their area. By involving local government officials at the outset, there is a built-in guarantee that precious resources will not be wasted on projects which run contrary to local planning and which will not receive the full support of local citizens.

Long term economic development requires the commitment of the entire community beginning with land use planning and zoning decisions. It requires capital; it often requires long-term investment, and in some instances it requires subsidization of operating costs until a project becomes self-sustaining. Some projects, such as those involving infrastructure, require long-term operating expenses that may never be recouped in the form of user fees or profits. Only governments have the authority to raise tax dollars or issue tax-exempt bond obligations for major projects.

In addition, Mr. Chairman, local governments are the only appropriate development entities which exist everywhere across this country. These public bodies offer a flexible delivery network which can assure access for any kind of support which Congress provides under proposed legislation. Local governments are the permanent institutions capable of achieving long-term improvements, and they must be included in all national efforts to reinvigorate rural America.

Community-based organizations, private-non profits, and rural electric cooperatives, while they play vital roles in many areas, are not located in every region, or in every community; but some form of government -- be it a town, a township, county, city or village -- is there. And we emphasize, Mr. Chairman, that economic development is an inherent responsibility of these local governmental units, and that their elected leaders are committed to addressing such problems.

A Role for Local Government Institutions

Local governments also have cooperative institutions in place which have a great deal of experience in economic development programs. These institutions, such as local economic development district, regional councils, and water districts, work closely with local elected officials in a number of cities, towns, and counties, and their governing boards have significant local government representation.

These multi-jurisdictional planning bodies facilitate regional approaches, encouraging the success of such projects; they also address the problems posed by economies of scale, by taking on major projects that small governments alone could not handle. Obviously, federal economic development legislation cannot help every small rural community across America; however, through regional approaches, many of the smaller jurisdictions that would otherwise be left out of the mainstream can be brought into this process and benefit from federal programs.

Building Capacity in Local Communities

Seventy-two percent of general purpose local governments serve communities with less than 3,000 people. In rural America, many elected officials serve on a part-time basis with little or no pay. They lack the in-house resources and expertise to address complex economic development problems. Increasing federal support for technical assistance and strategic planning is absolutely critical. This type of support enables rural government officials to conduct the necessary planning and to plug into the various networks which in turn allows them to compete sucessfully for federal and state support. The coalition's paper addresses the need for broad based capacity building which funds local governments and their institutions; we make several critically important recommendations to increase support of currently authorized programs.

OTHER CRITICAL AREAS THAT SHOULD BE ADDRESSED

Mr. Chairman, beyond the coalition's positions, there are several points which our association would like to make today. We realize that the full committee is currently drafting a proposal which has undergone numerous changes, some of which we have seen and many of which we have not.

We understand that a bill may be introduced today or by the end of this week. In the absence of having reviewed this proposal, we would to take this opportunity to make general statements about the legislation and to raise specific concerns we have about the process.

The Need for Coordination

Mr. Chairman, the 101st Congress has begun with a flurry of activity on behalf of rural America -- new ideas are emerging from other House and Senate Committees, from individual Members of Congress, and from the new rural development task force established by Majority Leader Mitchell. Small town and rural America is greatly encouraged by such interest and concern, and we commend Congress for recognizing the importance of this issue.

At the same time, Mr. Chairman, we are concerned that these efforts must be coordinated, and that necessary leadership must be assumed, in order to ensure final passage of a workable solution. The problems in rural America are overwhelming. The task looms

large and the solution must be comprehensive -- one that must be formulated beyond the jurisdiction of this one committee. The task force may be an important vehicle in which to coordinate these efforts, and we encourage Congress to use this mechanism as such.

In addition, we urge that the Senate Agriculture Committee coordinate its efforts with a number of other committees which have legitimate interests in rural economic development issues. Some committees -- such as the Small Business Committee -- are currently considering proposals. These initiatives must be somehow coordinated with the efforts currently underway in this committee. Without such coordination, it is our fear that we may lose this window of opportunity in a cross-fire over the costs of funding priorities and jurisdictional concerns.

Coordinating A Comprehensive Solution on Infrastructure

Coordination is particularly important in the area of infrastructure development. This committee cannot devise an effective solution to the overwhelming needs of rural America in this area. At the same time however, we cannot expect rural economic development to be long-lasting without addressing infrastructure.

Infrastructure -- public works, telecommunication, and health and human services delivery systems -- are costly. We at the local level are fully cognizant of how costly they are since we are the ones that carry the brunt of these costs. And we certainly do not expect to find all of the solutions in Congress, because we understand that the funds simply aren't within the budget confines. But certainly we must begin.

To that end, we as ask that this committee coordinate with the appropriate authorizing committees to raise the level of awareness of rural infrastructure needs and they how they relate to economic development; to work with these committees to ensure that any proposal, including reauthorizations under consideration, include increased support for rural America. This is particularly important as we approach the reauthorization of the federal highway system and funding for the Community Development Block Grant Small Cities Program.

Community-based Partners

While local governments and their institutions must be essential elements in local economic development projects, this does not mean that other organizations should be left out. The problems in rural America are varied. As such, the solution much be varied and flexible. No singular approach can effectively work in all regions of the country. Community-based, non-profit organizations, and rural electric cooperatives are important pieces to the puzzle of rural economic development.

These organizations should be eligible for funding. However, we strongly believe that such organizations cannot operate independently on matters of rural economic development; they must coordinate their efforts with local governments for all the reasons we discussed earlier about the role of local government in long-term economic development.

When the full committee addressed rural economic development legislation last year, the role of community-based, non-profit organizations in rural economic development programs was discussed at great length. We worked very hard to forge a compromise position with representatives of community based, non-profit organizations. The compromise language required non-profit organizations to consult with local governments and to certify that their proposal is consistent with locally developed economic development planning when seeking federal funding. In fact, this language was accepted as a committee amendment in markup last year, and it continues to be the position of our association.

We believe that this consultation and consistency requirement is absolutely critical in order to ensure long term success of any rural development program. The various actors should not operate independently. This legislation must encourage cooperation.

Improving the Federal Delivery Mechanism

Finally, Mr. Chairman, our association believes that a successful rural economic development proposal must address the chronic problem of getting help out into rural America. The capacity building program is certainly part of this solution. But it does not address how the federal government develops priorities regarding who receives funding and who doesn't. On what basis will the federal government make funding decisions? How will it know what projects are important to rural economic development -- to the region and as well as the individual governments?

We believe a that strategy must be devised which helps to direct rural economic develop-ment funds to the neediest communities, rather than to the best proposal writers. The lack of a coordinating mechanism that involves state and local government in establishing funding priorities and the failure to provide for a means of ensuring that small local governments can participate fully in any rural economic development proposal must be addressed.

We urge that the committee to investigate delivery mechanisms that are based on state/locally developed strategies. The Community Development Block Grant Small Cities Program is a good example. When it authorized this program, Congress required local government involvement in state investment strategies which would govern the expenditure of these funds. Without a similar mechanism in any proposed rural economic development, there will likely be little change from the situation we have today: a hodgepodge of local government and private non-profit organizations competing for limited dollars with no regard to any state/local strategy.

CONCLUSION

In conclusion, Mr. Chairman, on behalf of the National Association of Towns and Townships and the Local Governments Coalition on Rural Development, I thank you for the opportunity to appear today. We commend you and the committee for your interest in this vital issue, and we urge you to play a strong leadership role in encouraging final passage of a comprehensive rural economic development package. To that end, we recognize and strongly encourage this committee to reach out to appropriate authorizing committees to expand this process beyond the traditional areas of the Agriculture Committee. As stated earlier, this expansion is especially critical in the area of a significantly improved infrastructure proposal.

Mr. Chairman, small town America stands ready to work with you as the committee fashions a legislative solution on rural economic development. I would be happy to respond to any questions regarding our statement today.

(Common position on rural development legislation follows:)

LOCAL GOVERNMENTS COALITION ON RURAL DEVELOPMENT: NATIONAL ASSOCIATION OF COUNTIES (NACo) -- NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS (NADO) -- NATIONAL ASSOCIATION OF REGIONAL COUNCILS (NARC) -- NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS (NATaT) -- NATIONAL LEAGUE OF CITIES (NLC) -- NATIONAL RURAL WATER ASSOCIATION (NRWA)

April 4, 1989

LOCAL GOVERNMENT PARTICIPATION: THE KEY TO RURAL DEVELOPMENT

Local government participation is the essential mechanism for making permanent improvements in rural communities. All development is local. Goal setting and decision making must be responsive to the local economic and social environment as well as the global framework. Only one vehicle for development and human services is rooted everywhere across the country. Local governments are the permanent institutions capable of achieving long-term improvements, and they must be included in all national efforts to reinvigorate rural America.

Local government involvement ensures public accountability. Local government officials are directly responsible to their citizens through the electoral process. They provide a public medium through which rural development programs can be delivered to every county, city, and town throughout rural America.

Rural America has suffered during the 1980s. Certainly the farm crisis has crippled the agriculture community, however rural America is far more than farmland -- agricultural jobs comprise only ten percent of the rural employment base. Since 1979, the nonmetropolitan employment rate has grown at only 38 percent of the metropolitan rate. As the non-farm rural economy has continued to falter, the quality of life has fallen as well. While 20 percent of urban America lives in poverty, 34 percent of all rural people are poverty stricken.

Rural America needs public investment. Without modern roads, bridges and telecommunication systems, rural communities cannot attract private investment. Without job training and accessible health care, these communities cannot provide the basic necessities for their people. In order to survive and prosper, small communities require federal support in developing adequate infrastructure and in supporting a strong human services network. Since 1980, however, federal grant and loan programs for economic and community development have been cut by 74 percent. Mandates -- be they federal or state initiated -- do not provide effective solutions to local problems. Rural communities need a strong federal commitment, enabling local government to institute a comprehensive plan for development. In most rural areas, multijurisdictional regional planning and development organizations join local governments, businesses, and citizens together to improve the economic opportunities and quality of life for all rural Americans.

The Local Governments Coalition on Rural Development applauds the Senate Agriculture Committee for addressing the problems of rural America and looks forward to working with the Committee to develop comprehensive rural development legislation. The Coalition has prepared this paper to promote federal programs vital to the development of rural areas and put forth initiatives to improve the federal-state-local rural development partnership.

CAPACITY BUILDING/STRATEGIC PLANNING

Problems

There are 39,000 units of local government in this country including counties, cities and towns. (Seventy-two percent of these localities have populations less than 3000.) In rural America elected officials serve on a part time basis with little or no pay. These rural governments lack the economic and community development expertise needed to solve many of their problems. There are approximately 500 multijurisdictional agencies already in place called development districts, regional councils or the like which provide assistance to these governments. Federal funding for these multijurisdictional cooperative efforts has been drastically reduced.

Solutions

* Develop a national grant program to support locally-selected circuit-riders with the ability to provide technical assistance to local governments and other public-purpose community organizations.

* Provide funding under the 1980 Rural Development Policy Act to encourage rural local governments to join together to do strategic planning on a multi-jurisdictional and multi-functional basis.

* Strengthen the Regulatory Flexibility Act of 1980 to require all federal agencies to permit small governments to comply with regulations in simpler more flexible ways as long as they meet national standards.

* Prohibit federal agencies from eliminating local governments' participation in a program because of small population.

SMALL BUSINESS ASSISTANCE

Problems

Most businesses in rural areas are small businesses but little or no federal small business assistance is available in most rural communities. Often small business people cannot afford to leave their stores and factories to travel to major metropolitan areas to find out about federal or state programs which might be of help to them. Rural banks are frequently unable or unwilling to make loans to small businesses needing capital to start up, survive or expand. Because of the distance to major market outlets, many rural small businesses say their greatest need is for marketing and management assistance, neither of which is now available in their communities.

Solutions

* Expand federal grants for capitalizing revolving loan funds managed by local governments and private sector representatives in rural areas. These revolving loan funds help compensate for the lack of private investment in these communities.

* Permit Community Development Block Grant (CDBG) funds to be used for multijurisdictional revolving loan funds in rural areas.

- Create a program to finance the hiring of circuit-riders to provide management and other technical assistance to rural small businesses.

- Require the Small Business Administration (SBA), Economic Development Administration (EDA), Farmers Home Administration (FmHA), and the Department of Housing and Urban Development (HUD) to establish common regulations for small business and economic development assistance.

INFRASTRUCTURE

Problems

The physical infrastructure of rural America is inadequate, deteriorating or has never existed. Deregulation of transportation has exacerbated the isolation and decline of many areas through the loss of rail, bus and airline service. The vast majority of rural Americans travel to work in their private automobiles and they spend a greater proportion of their income on transportation than their urban counterparts. Rural roads and bridges are continuing to deteriorate. Rural water and waste disposal systems are much more expensive per capita than in densely populated areas and rural residents are much more likely to be drinking unhealthy water.

Solutions

- In the reauthorization of the Surface Transportation Act, provide additional funds for construction and maintenance of rural roads and bridges and allow greater flexibility in meeting standards.

- Increase grant funding for Public Transportation for Nonurbanized Areas (Section 18).

- Existing Farmers Home Administration (FmHA) community facilities, water and waste disposal grant and loan programs and the Economic Development Administration public works grant program should be fully funded.

- The Environmental Protection Agency's programs for water, sewage treatment, solid waste, and hazardous waste should not discriminate against participation by small rural governments, and should provide funding for rural communities.

- Encourage states to provide funds to regional organizations for rural transportation planning at the discretion of their local governments.

- Strengthen national grant programs to support locally-selected circuit-riders with the ability to provide technical assistance to local governments and other community organizations for environmental and infrastructure programs.

HUMAN SERVICES

Problems

Rural residents, on average, have completed fewer years of schooling than urban dwellers, and a smaller proportion have attended college.

School dropout rates are higher in rural areas. A disproportionately large number of college graduates leave their rural communities. Unemployment in rural areas is higher than the national average and the income of rural residents is only 79 percent of the U.S. average. Job training and vocational education programs are often unavailable or inadequate for today's jobs.

Access to health care services in rural areas is often more difficult, both for logistic and economic reasons. While the rural population is aging and the aged require more health services, rural hospitals are closing at an alarming rate. Although 25 percent of the population is in rural areas, only 11 percent of the doctors are located there. The current Medicare reimbursement system pays less to rural hospitals, and this is placing additional financial burdens on already troubled institutions. The Rural Health Care Coalition of the U.S. House of Representatives recently introduced its 1989 legislative package which includes a number of bills addressing health care needs in rural areas. This legislative package should be considered as part of a comprehensive rural development bill.

Solutions

* Federal programs should be developed which provide technical assistance and funding to improve the quality of rural schools, especially those which raise basic skills within the rural workforce and prepare individuals for high quality jobs.

* Rural school districts should be encouraged to work cooperatively with their local governments, regional development organizations and private industry councils (established by JTPA) to coordinate their economic development efforts, especially in job training and community leadership efforts.

* Proposed amendments which further target JTPA funds should be weighed carefully in terms of their impact on rural areas.

* Existing Medicare reimbursement payments should be increased for rural and inner city hospitals and for rural physicians.

* The Rural Health Care Transition Grant Program should be increased to provide interim protection for rural hospitals.

* The National Health Service Corps program should be expanded to provide more doctors for rural areas.

* The federal government should encourage and fund programs which assist rural counties or multi-county organizations to make careful assessments of their health needs and improve access to hospitals and health care centers.

* A grant program should be established to help states and local governments to improve emergency medical services in rural areas.

* Additional funds should be made available to use retirees and older Americans in rural development activities.

Mr. **Beck**. Senator, could I excuse myself? I have a plane to catch. I need to get to a board meeting in Louisville.

Senator **Conrad**. Yes. All right. We understand that.

Mr. **Beck**. Thank you, sir.

Senator **Conrad**. Next it is my pleasure to introduce Kaye Braaten. Kaye is the first woman to be elected a county commissioner in my State's history. She is the first female elected president of the North Dakota County Commissioners, and the first North Dakotan to be elected the third vice president of the National Association of Counties. For 3 years now she has chaired NACo's steering committee for intergovernmental relations.

She is considered an expert on rural matters in my State and is known nationally for her expertise, but most of all her enthusiasm. And with all of them, she is modest as well, and that is why I had to say these things. Let me just welcome you here today, Kaye. We look forward to your testimony. You bring a special perspective because nobody knows better what we are faced with than the people who are on the front line. Our county commissioners are on the front lines. Welcome. It's good to have you here.

STATEMENT OF KAYE BRAATEN, BARNEY, ND, COMMISSIONER, RICHLAND COUNTY, ND, AND THIRD VICE PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, WASHINGTON, DC

Ms. **Braaten**. Thank you, Senator, and as I sat here, I was going to say, wow, this is getting exciting, and you made a real error in putting me on the program last because that green light is not going to be long enough. I want to comment on all of the things that I have already heard.

Senator **Conrad**. We have a special North Dakota rule.

Ms. **Braaten**. Good. Good.

Senator **Conrad**. The light goes off completely and you just testify to your heart's content.

Ms. **Braaten**. As you know, in North Dakota, quite often we have to deal against red lights and they do not stop us quite often. We just keep charging on.

BACKGROUND

So I would like to thank you on behalf of the National Association of Counties for giving us this opportunity to come here today. And my name, as you said, is Kaye Braaten, and I am a county commissioner in Richland County and have the privilege of serving as Third Vice President for the National Association of Counties.

I am one of those people that are thought of as the afterthought because of the fact that my husband and I operate a diversified farming operation in Richland County, and I think that you ought to be congratulated for your leadership in developing a rural development bill, and as a North Dakotan, I am particularly excited and would like to applaud you for the rapidity with which this bill hopefully will go through Congress because it really is an emergency in the rural areas of this country. And we need to do these things as quickly as possible.

POINTS TO MAKE ON LEGISLATION

NACo does have a number of points to make on the legislation that is pending before this subcommittee. But before doing so, I would like to reemphasize the roles of counties and local governments in being fully involved in efforts to revitalize our rural areas. While we do need Federal financial assistance, no Federal program is going to work without the active participation of county commissioners, city council members, and township officials.

MINN-DAK FARMERS COOPERATIVE EXAMPLE

One of the major employers in Richland County, the Minn-Dak Farmers Cooperative, is an example of how our county commissioners worked with our community leaders. It took the combined forces of farmers, private businesses, and other interested citizens more than 20 years to succeed in building a plant to process sugar beets into sugar and byproducts. This of course did bring jobs and it has broadened our tax base.

SPIRIT OF THE '90'S

I was interested in something that was said in the previous panel when they talked about the fact that there is a lack of direction. We are not, and presently we are using the same theory of knowing where we have been, where we are now, and where we are going to in Richland County.

Last week I chaired a committee meeting in Richland County. We have started a new committee called "Spirit of the '90's." We have a dream in Richland County that we are going to do something, and we are going to determine our own destiny. We are not going to sit back and wait for the Federal Government and the State government to determine what we are going to be. We have 90 citizens that are involved in this process with nine committees looking at various issues and our goal is to put together a plan and they are targeting problems, researching possible solutions. They are weighing alternatives and making recommendations that the county commissioners can use to guide our county through the next decade and on into the new century.

The plan is that they will report back within the next year and they will have recommendations and a plan for us, so if we want to put something on the ballot we can do that.

NO LONGER TURF PROTECTORS

One of the major things that we have talked about is that we can no longer be turf protectors; that we cannot deal as township officials, city council people, county commissioners, but we have to have a sense of community, and I think that is going to be so important in our rural areas.

Our effort is but one example of what counties in rural and urban America are trying to do to provide leadership in their communities. Federal legislation has to build on this leadership and on existing institutions.

LEGISLATION—REVOLVING LOAN FUNDS

Turning to the legislation that is pending before the subcommittee, we certainly are pleased to see that applicants for a revolving loan fund line of credit under title I would have to demonstrate that their activities are consistent with State and county economic development goals. The applicants also would have to develop an investment strategy in consultation with the applicable State, regional, county or local unit of government. However, it is unclear to us what an applicant would have to do to demonstrate that their activities are consistent with local goals.

We do not think the language in the pending bill goes far enough to assure that the activities of the revolving loan fund are in agreement with local goals. We would recommend that any organization applying for a Federal line of credit be required to inform all applicable local governments in the area to be served that it is submitting an application. The federal board administering this program also should be required to consider any comments about the application from local governments in the service area.

I personally think that covering short-term operating costs for existing businesses makes economic sense in many cases. We should pay as much attention to retaining existing small businesses as we do to developing new ones. I would hope that the legislation and implementing regulations would emphasize retention of existing small businesses, or at least look at that fact.

EXPANSION OF REA

We in NACo support the expansion of the role of the Rural Electrification Administration and its co-op borrowers in economic development.

We in Richland County know that the Rural Electric Cooperative had a lot to do with the development of the Minn-Dak Farmers Cooperative. In the future they will play a major role in Richland County's quest to determine our own destiny through the Spirit of the 1990's Project.

COOPERATIVE EXTENSION SPECIALISTS

NACo strongly supports the provision to help States and counties to hire economic development specialists on their cooperative extension staffs. Federal funding for 60 percent of the salaries of such personnel would help us in employing and in some cases retaining this type of expertise. As you know, State and local budgets for the Cooperative Extension Service have been cut back and programs other than agricultural productivity and research are the first to be cut. So we need this Federal reemphasis on rural development.

We certainly are not suggesting that every county have this sort of expertise on staff, and we are aware that quite often cooperation between counties is essential.

EMERGENCY WATER GRANTS

We are pleased, and we heard a lot this morning about water, that there is some recognition in the pending bill of the severe problem facing many rural counties in providing safe drinking water. We believe that the proposed authorization of $25 million is clearly inadequate.

RURAL HEALTH CARE

One of the major problems facing rural counties all over the United States is maintaining access to health care. The problem of closing hospitals in rural counties and the difficulty of retaining physicians is now well documented.

Obviously, our major problem is that reimbursement rates for rural hospitals and physicians under the Medicare Program are not adequate to meet costs. NACo is urging a speedier elimination of the urban/rural differential.

You will note that in the prepared statement that there are two demonstration projects listed. The second one is a pilot program to train displaced farmers and other rural workers for a second career in nursing, medical technology and social work. This pilot program perhaps could be recommended to be included as a demonstration project in at least 10 other States in the legislation reported by your committee.

CONCLUSION—INFRASTRUCTURE NEEDS

In conclusion, Mr. Chairman, I would like to reiterate what was already said about the infrastructure system. There is not much before your subcommittee contained in this bill on the infrastructure problem of funding. This is clearly our No. 1 need in rural counties. You can talk all you want to about economic development, as we have heard, but if you do not have the infrastructure to support it, you are never going to achieve that goal.

We realize that the current Federal budget situation does not allow for large new expenditures and perhaps you will tell us that we should be pleased with what we got in the current 1990 Budget Resolution. However, we would urge that the Senate Rural Development Task Force be continued beyond this year and be used as a coalition to push for a rural infrastructure bill.

Reauthorization of the Surface Transportation Act will be before the Congress next year. We would urge the task force to work with the Environment and Public Works Committee to make certain that rural areas receive a larger portion of highway trust fund dollars to rebuild and repair rural roads and bridges.

Again, I would like to say thank you for giving me the opportunity to come here to discuss with you our views on rural development and I can tell you that NACo wants desperately to work hard with you for enactment of this legislation this year. I would be happy to answer any easy questions you have for me, Senator.

[The prepared statement of Ms. Braaten follows:]

NATIONAL
ASSOCIATION
of
COUNTIES

440 First St. NW, Washington, DC 20001
202/393-622

STATEMENT OF

THE HONORABLE FAYE BRAATEN

COMMISSIONER RICHLAND COUNTY, NORTH DAKOTA AND

THIRD VICE-PRESIDENT OF NACo

ON BEHALF

OF THE NATIONAL ASSOCIATION OF COUNTIES

BEFORE THE

SENATE SUBCOMMITTEE ON RURAL DEVELOPMENT AND

RURAL ELECTRIFICATION

ON

RURAL DEVELOPMENT LEGISLATION

MAY 16, 1989
WASHINGTON, DC

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I WOULD LIKE TO THANK YOU ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES (NACo)[*] FOR THE OPPORTUNITY TO TESTIFY THIS MORNING. MY NAME IS KAYE BRAATEN AND I AM A COUNTY COMMISSIONER IN RICHLAND COUNTY, NORTH DAKOTA. I ALSO SERVE AS THE THIRD-VICE PRESIDENT OF NACo.

AT THE OUTSET, WE WANT TO CONGRATULATE THIS COMMITTEE IN TAKING THE LEADERSHIP ON DEVELOPING A RURAL DEVELOPMENT BILL. WE ALSO WANT TO COMMEND THE SENATE LEADERS, MAJORITY LEADER GEORGE MITCHELL AND MINORITY LEADER BOB DOLE, IN MAKING RURAL DEVELOPMENT A PRIORITY ISSUE AND APPOINTING A BI-PARTISAN TASK FORCE TO DEVELOP COMPREHENSIVE LEGISLATION. WE ARE VERY ENCOURAGED BY THE ACTION OF THE SENATE BUDGET COMMITTEE AND THE HOUSE-SENATE CONFERENCE COMMITTEE IN AGREEING LAST WEEK TO INCLUDE ADDITIONAL FUNDING FOR RURAL DEVELOPMENT IN THE BUDGET RESOLUTION. THERE IS REAL MOMENTUM FOR ENACTING SIGNIFICANT RURAL DEVELOPMENT THIS YEAR AND WE AT NACo PLEDGE OUR ENTHUSIASTIC AND STRONG SUPPORT IN THIS EFFORT.

WE HAVE A NUMBER OF POINTS TO MAKE ON THE LEGISLATION PENDING OR ABOUT TO BE PENDING BEFORE THIS SUBCOMMITTEE. BUT BEFORE DOING SO, I WOULD LIKE TO RE-EMPHASIZE THE ROLES OF COUNTIES AND OTHER LOCAL GOVERNMENTS IN BEING FULLY INVOLVED IN

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[*] THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NTIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

EFFORTS TO REVITALIZE OUR RURAL AREAS. WHILE WE NEED FEDERAL FINANCIAL ASSISTANCE, NO FEDERAL PROGRAM IS GOING TO WORK WITHOUT THE ACTIVE PARTICIPATION OF COUNTY COMMISSIONERS, CITY COUNCIL MEMBERS AND TOWNSHIP OFFICIALS. WE ARE ELECTED BY THE SAME PEOPLE WHO ELECT YOU AND WE ARE PUBLICLY ACCOUNTABLE TO THE PEOPLE IN OUR COUNTIES AND COMMUNITIES. WE WORK EVERYDAY WITH FARMERS, BUSINESS LEADERS, BANKERS, CHAMBERS OF COMMERCE ELECTRIC COOPS AND FARM ORGANIZATIONS AND WE INVOLVE THEM IN ALL OUR EFFORTS TO IMPROVE OUR COMMUNITIES.

ONE OF THE MAJOR EMPLOYERS IN RICHLAND COUNTY, THE MINN-DAK FARMERS COOPERATIVE, IS AN EXAMPLE OF HOW OUR COUNTY COMMISSIONERS WORKED WITH OUR COMMUNITY LEADERS. IT TOOK THE COMBINED FORCES OF FARMERS, PRIVATE BUSINESSES AND INTERESTED CITIZENS MORE THAN 20 YEARS TO SUCCEED IN BUILDING A PLANT TO PROCESS SUGAR BEETS INTO SUGAR AND BY-PRODUCTS. FARMERS IN A FIVE-TO-SIX COUNTY, TWO-STATE AREA NOW HAVE THE CHOICE OF BEING ABLE TO RAISE SUGAR BEETS AS ANOTHER CASH CROP. THE PLANT HAS BROUGHT JOBS AND IT HAS BROADENED OUR TAX BASE. THERE IS NO WAY THIS PLANT WILL RELOCATE TO ANOTHER AREA BECAUSE ITS OWNERS, MANAGEMENT AND EMPLOYEES ARE PART OF OUR COMMUNITY.

I WOULD LIKE TO TELL YOU ABOUT A MEETING I CHAIRED LAST WEEK IN RICHLAND COUNTY. OVER 70 PEOPLE FROM ALL OVER OUR COUNTY ATTENDED. UNDER THE NAME, "SPIRIT OF THE 90'S," RICHLAND COUNTY CITIZENS GATHERED TO TARGET PROBLEMS, RESEARCH POSSIBLE SOLUTIONS, WEIGH ALTERNATIVES AND MAKE RECOMMENDATIONS THAT THE COUNTY COMMISSION CAN USE TO GOVERN THE COUNTY THROUGH THE NEXT DECADE AND INTO THE NEXT CENTURY. THE GROUP ESTABLISHED NINE

COMMITTEES WHICH INCLUDE ECONOMIC DEVELOPMENT, EDUCATION, FINANCE AND TAXATION, HUMAN SERVICES, INTERGOVERNMENTAL COOPERATION, LAW ENFORCEMENT, SOLID WASTE AND TRANSPORTATION. THIS COMMITTEE HAS A GOAL OF REPORTING BACK ITS RECOMMENDATIONS IN ONE YEAR.

THE RESPONSE WAS ENTHUSIASTIC. I HAD A HARD TIME GETTING THEM TO QUIT TALKING. WHEN WE COMPLETE THIS PROJECT WE HOPE TO HAVE A REALISTIC PLAN OF WHERE WE ARE GOING. MORE IMPORTANTLY, WE HOPE TO HAVE A PLAN THAT HAS WIDE PUBLIC SUPPORT AND THAT PEOPLE WILL UNDERSTAND WHY WE HAVE TO MAKE SOME TOUGH DECISIONS IN THE YEARS AHEAD.

OUR EFFORT IS ONLY ONE EXAMPLE OF WHAT COUNTIES, BOTH RURAL AND URBAN, ARE TRYING TO DO TO PROVIDE LEADERSHIP IN THEIR COMMUNITIES. FEDERAL LEGISLATION HAS TO BUILD ON THIS LEADERSHIP AND ON EXISTING INSTITUTIONS.

REVOLVING LOAN FUNDS

TURNING TO THE LEGISLATION PENDING BEFORE THE SUBCOMMITTEE, WE ARE PLEASED TO SEE THAT APPLICANTS FOR A REVOLVING LOAN FUND LINE OF CREDIT UNDER TITLE I WOULD HAVE TO DEMONSTRATE THAT THEIR ACTIVITIES ARE CONSISTENT WITH STATE AND COUNTY ECONOMIC DEVELOPMENT GOALS. THE APPLICANTS ALSO WOULD HAVE TO DEVELOP AN INVESTMENT STRATEGY IN CONSULTATION WITH THE APPLICABLE STATE, REGIONAL, COUNTY OR LOCAL UNIT OF GOVERNMENT. HOWEVER, IT IS UNCLEAR TO US WHAT AN APPLICANT WOULD HAVE TO DO TO DEMONSTRATE THAT THEIR ACTIVITIES ARE CONSISTENT WITH LOCAL GOALS. WE ARE NOT OPPOSED TO REGIONAL AGENCIES OR OTHER NON-PROFIT

ORGANIZATIONS BEING INVOLVED IN THESE ACTIVITIES. MOST OF THE TIME WE HAVE CREATED THESE ENTITIES TO HELP US PLAN AND COORDINATE MULTI-COUNTY PROGRAMS AND THEY ARE WORKING FOR AND WITH US.

WE DO NOT THINK THE LANGUAGE IN THE PENDING BILL GOES FAR ENOUGH TO ASSURE THAT THE ACTIVITIES OF THE REVOLVING LOAN FUND ARE IN AGREEMENT WITH LOCAL GOALS. WE WOULD RECOMMEND THAT ANY ORGANIZATION APPLYING FOR A FEDERAL LINE OF CREDIT BE REQUIRED TO INFORM ALL APPLICABLE LOCAL GOVERNMENTS IN THE AREA TO BE SERVED THAT IT IS SUBMITTING AN APPLICATION. THE FEDERAL BOARD ADMINISTERING THIS PROGRAM ALSO SHOULD BE REQUIRED TO CONSIDER ANY COMMENTS ABOUT THE APPLICATION FROM LOCAL GOVERNMENTS IN THE SERVICE AREA. THIS SHOULD NOT BE AN UNDUE BURDEN ON A STATE, A REGIONAL AGENCY OR A NON-PROFIT ORGANIZATION IF THEY ARE CONSULTING AND WORKING WITH LOCAL GOVERNMENTS AS THE BILL REQUIRES.

WITH FEDERAL, STATE AND LOCAL RESOURCES BEING SO LIMITED, NACo SUPPORTS AND AGREES THAT THE CENTRAL CORE OF THIS YEAR'S LEGISLATION SHOULD BE PROVIDING MORE ACCESS TO CREDIT FOR SMALL BUSINESSES THROUGH REVOLVING LOAN FUNDS. MANY OF OUR COUNTIES ARE INVOLVED EITHER DIRECTLY OR THROUGH A REGIONAL DEVELOPMENT ORGANIZATION IN REVOLVING LOAN FUNDS AND THEY ARE VERY SUCCESSFUL. IT IS A PROVEN WAY TO LEVERAGE PRIVATE FUNDS AND TO SPREAD THE RISK. EVEN 10 PERCENT OR 20 PERCENT PARTICIPATION FROM A REVOLVING LOAN FUND CAN MAKE THE DIFFERENCE IN A SMALL BUSINESS GETTING A LOAN. WHERE LENDING INSTITUTIONS ONLY WANT TO LEND ON CAPITAL NEEDS, THE REVOLVING LOAN FUND CAN PROVIDE SHORT

TERM OPERATING FUNDS DURING THE START UP OF A NEW BUSINESS. THIS MAY BE CRITICAL IN GETTING A NEW BUSINESS OFF THE GROUND.

I PERSONALLY THINK THAT COVERING SHORT TERM OPERATING COSTS FOR EXISTING BUSINESSES MAKES ECONOMIC SENSE IN MANY INSTANCES. WE SHOULD PAY AS MUCH ATTENTION TO RETAINING EXISTING SMALL BUSINESSES AS TO DEVELOPING NEW ONES. I WOULD HOPE THAT THE LEGISLATION AND IMPLEMENTING REGULATIONS WOULD EMPHASIZE RETENTION OF EXISTING SMALL BUSINESSES.

EXPANSION OF REA

WE SUPPORT THE EXPANSION OF THE ROLE OF THE RURAL ELECTRIFICATION ADMINISTRATION AND ITS COOP BORROWERS IN ECONOMIC DEVELOPMENT. MANY COUNTIES WORK CLOSELY WITH RURAL ELECTRIC COOPS ON COMMUNITY PROJECTS AND ARE CONSIDERED TO BE KEY PARTNERS IN ECONOMIC DEVELOPMENT.

THE RURAL ELECTRIC COOP IN OUR COUNTY PLAYED A MAJOR ROLE IN THE DEVELOPMENT OF THE MINN-DAK FARMERS COOPERATIVE. IN THE FUTURE THEY WILL PLAY AN IMPORTANT PART IN RICHLAND COUNTY'S QUEST TO DETERMINE OUR OWN DESTINY THROUGH THE SPIRIT OF THE 90'S PROJECT.

THE ABILITY OF RURAL ELECTRIC COOPS TO USE UP TO 10 PERCENT OF ALL INSURED LOANS, OR $40 MILLION, WHICHEVER IS LESS, FOR PROVIDING WATER AND SEWER LOANS COULD BE A USEFUL RESOURCE FOR ECONOMIC DEVELOPMENT PROJECTS IN RURAL COUNTIES. THE AMOUNT OF ASSISTANCE AVAILABLE UNDER THE FARMERS HOME ADMINISTRATION'S LOAN PROGRAMS IS NOT ADEQUATE AND IS CONSTRAINED BY INCOME LIMITATIONS.

AUTHORIZING RURAL ELECTRIC COOPS TO FUND AND DEVELOP INCUBATORS FOR SMALL BUSINESSES IN RURAL COUNTIES ALSO COULD BE AN IMPORTANT TOOL FOR RURAL DEVELOPMENT. THE PROPOSED FUNDING OF $10 MILLION IS MODEST BUT IT COULD PROVIDE A NUMBER OF PILOT PROJECTS WHICH COULD BE USEFUL DEMONSTRATIONS OF BUSINESS INCUBATORS IN RURAL COUNTIES. WE WOULD RECOMMEND SIMILAR REQUIREMENTS FOR WRITTEN NOTIFICATION OF THE COUNTY AND OTHER APPLICABLE LOCAL GOVERNMENTS AS WE ARE RECOMMENDING FOR REVOLVING LOAN FUNDS. BECAUSE OF OUR RELATIONSHIP WITH RURAL ELECTRIC COOPS, WE ARE LESS CONCERNED ABOUT NOT BEING CONSULTED. HOWEVER, COMMENTS OF LOCAL GOVERNMENTS SHOULD BE CONSIDERED IN REVIEWING THE APPLICATION.

COOPERATIVE EXTENSION SPECIALISTS

NACo STRONGLY SUPPORTS THE PROVISION TO HELP STATES AND COUNTIES TO HIRE ECONOMIC DEVELOPMENT SPECIALISTS ON THEIR COOPERATIVE EXTENSION STAFFS. FEDERAL FUNDING FOR 60 PERCENT OF THE SALARIES OF SUCH PERSONNEL WOULD HELP US IN EMPLOYING AND IN SOME CASES RETAINING THIS TYPE OF EXPERTISE. STATE LEGISLATURES AND COUNTY BOARDS OF COMMISSIONERS HAVE MANY CONFLICTING DEMANDS AT BUDGET TIME AND LESS AND LESS RESOURCES. UNFORTUNATELY, STATE AND LOCAL BUDGETS FOR THE COOPERATIVE EXTENSION SERVICE HAVE HAD TO BE TRIMMED AND PROGRAMS OTHER THAN AGRICULTURAL PRODUCTIVITY AND RESEARCH ARE THE FIRST TO BE CUT. WE NEED THIS FEDERAL RE-EMPHASIS ON RURAL DEVELOPMENT.

WE ARE NOT SUGGESTING THAT EVERY COUNTY EMPLOY A RURAL DEVELOPMENT SPECIALIST ON THEIR EXTENSION STAFF. IT WOULD MAKE SENSE IN MANY CASES FOR COUNTIES TO SHARE SUCH A SPECIALIST. WE

WOULD LIKE TO SEE A CLOSER WORKING RELATIONSHIP BETWEEN EXTENSION AND REGIONAL DEVELOPMENT AND PLANNING ORGANIZATIONS. WE WOULD RECOMMEND THAT SUCH MULTI-COUNTY AGENCIES ALSO BE AUTHORIZED TO HAVE EXTENSION STAFF DETAILED TO THEM AND BE ELIGIBLE FOR SIMILAR COST SHARING ARRANGEMENTS.

EMERGENCY WATER GRANTS

WE ARE PLEASED TO SEE SOME RECOGNITION IN THE PENDING BILL OF THE SEVERE PROBLEM FACING MANY RURAL COUNTIES IN PROVIDING SAFE DRINKING WATER AS A RESULT OF THE 1988 AND 1989 DROUGHT CONDITIONS. IN DISCUSSIONS WITH COUNTY OFFICIALS IT IS CLEAR THAT PARTS OF ALMOST EVERY STATE IN THE MIDWEST AND GREAT PLAINS ARE AFFECTED. THE PROBLEM THIS YEAR WILL BE PARTICULARLY CRITICAL IN THE GREAT PLAINS STATES. THE PROPOSED AUTHORIZATION OF $25 MILLION IS CLEARLY INADEQUATE.

A MUCH LARGER PROBLEM IS LOOMING IN RURAL COUNTIES ON PROVIDING ADEQUATE, SAFE DRINKING WATER AND THAT IS THE COST OF COMPLYING WITH THE SAFE DRINKING WATER ACT.

AS YOU ARE AWARE, THE 1986 SAFE DRINKING WATER ACT REQUIRES THE ENVIRONMENTAL PROTECTION AGENCY TO ESTABLISH MAXIMUM CONTAMINANT LEVELS (MLCs) FOR 61 SUBSTANCES BY JUNE OF THIS YEAR. IN ADDITION, THE AGENCY MUST ALSO REQUIRE DISINFECTION OF ALL PUBLIC WATER SYSTEMS BY JUNE. WHILE WE DO NOT HAVE ACCURATE INFORMATION ON COSTS, SOURCES WITHIN EPA HAVE ESTIMATED THAT THE COST OF COMPLYING WITH JUST THIS REQUIREMENT WILL BE $41 PER HOUSEHOLD PER YEAR FOR A SYSTEM SERVING BETWEEN 500 TO 3,000 HOUSEHOLDS. THE IMPACT ON VERY SMALL SYSTEMS IS EVEN MORE DRAMATIC: $91 PER HOUSEHOLD PER YEAR FOR SYSTEMS SERVING BETWEEN 25 AND 500 HOUSEHOLDS.

IN ITS RECENTLY ISSUED MUNICIPAL SECTOR STUDY, EPA ATTEMPTED TO CALCULATE THE FINANCIAL IMPACT OF A VARIETY OF EXISTING ENVIRONMENTAL REGULATIONS ON LOCAL GOVERNMENTS. THIS REPORT INDICATES THAT USER FEES OF ONE-FIFTH OF THE LOCAL GOVERNMENTS UNDER 2,500 POPULATION ARE PROJECTED TO RISE OVER 100 PERCENT ABOVE CURRENT LEVELS IN ORDER TO MEET THE DRINKING WATER, WASTEWATER TREATMENT AND SOLID WASTE DISPOSAL REQUIREMENTS IMPOSED BY THE FEDERAL GOVERNMENT.

RURAL HEALTH CARE

ONE OF THE MAJOR PROBLEMS FACING RURAL COUNTIES ALL OVER THE UNITED STATES IS MAINTAINING ACCESS TO HEALTH CARE. THE PROBLEM OF CLOSING HOSPITALS IN RURAL COUNTIES AND THE DIFFICULTY OF RETAINING PHYSICIANS IS NOW WELL DOCUMENTED. IT IS GETTING RECOGNITION IN THE CONGRESS BUT UNLESS THERE IS ACTION THIS YEAR THE PROBLEM WILL RAPIDLY GET WORSE.

OBVIOUSLY, OUR MAJOR PROBLEM IS THAT REIMBURSEMENT RATES FOR RURAL HOSPITALS AND PHYSICIANS UNDER THE MEDICARE PROGRAM ARE NOT ADEQUATE TO MEET COSTS. SEVERAL BILLS INTRODUCED IN THIS CONGRESS ADDRESS THIS ISSUE. LEGISLATION (S. 306) INTRODUCED BY SENATORS BENTSEN, DOLE AND 56 OTHER SENATORS WOULD ELIMINATE THE DIFFERENTIAL PAYMENTS BETWEEN URBAN AND RURAL HOSPITALS OVER A FOUR YEAR PERIOD. SPECIAL PAYMENTS WOULD BE MADE TO SMALLER RURAL HOSPITALS WHILE THE NEW PAYMENT SCHEDULE IS PHASED IN. NACo IS URGING A SPEEDIER ELIMINATION OF THE URBAN-RURAL DIFFERENTIAL.

A NUMBER OF OTHER BILLS HAVE BEEN INTRODUCED WHICH WOULD IMPROVE RURAL HEALTH CARE. NACo IS SUPPORTING THE ENTIRE PACKAGE

OF BILLS INTRODUCED BY THE HOUSE RURAL HEALTH CARE COALITION. SIMILAR BILLS HAVE BEEN INTRODUCED IN THE SENATE. MOST OF THIS LEGISLATION HAS BEEN REFERRED TO THE SENATE FINANCE AND LABOR AND HUMAN RESOURCES COMMITTEES. WE STRONGLY URGE THAT MEMBERS OF THIS COMMITTEE WHO SERVE ON THE FINANCE COMMITTEE AND THE ENTIRE RURAL DEVELOPMENT TASK FORCE PUSH SPEEDY ACTION ON THESE BILLS AND THAT RURAL HEALTH CARE LEGISLATION BE INCLUDED IN THE FINAL RURAL DEVELOPMENT BILL PASSED BY THE SENATE.

WHILE MOST OF THE HEALTH CARE LEGISLATION IS UNDER THE JURISDICTION OF OTHER COMMITTEES, WE SUPPORT THE PROVISION IN YOUR PENDING BILL TO IMPROVE TELECOMMUNICATIONS LINKS BETWEEN RURAL HOSPITALS AND PHYSICIANS, TEACHING HOSPITALS AND MAJOR MEDICAL HOSPITALS. IT MAKES SENSE TO US TO INVOLVE RURAL TELEPHONE COOPS AND OTHER TELEPHONE COMPANIES ELIGIBLE FOR REA LOANS IN THIS EFFORT.

WE WOULD LIKE TO BRING TO YOUR ATTENTION TWO DEMONSTRATION PROGRAMS DIRECTLY RELATED TO THE ISSUE OF ATTRACTING PHYSICIANS AND OTHER MEDICAL PROFESSIONALS TO SERVE IN RURAL AREAS.

THE HEALTH OMNIBUS PROGRAMS EXTENSION ACT OF 1988 (PL 100-607) ESTABLISHES A $15 MILLION A YEAR DEMONSTRATION PROGRAM TO ENCOURAGE MEDICAL SCHOOLS AND UNIVERSITIES TRAINING OTHER MEDICAL PROFESSIONALS TO DEVELOP CURRICULUM AND PROVIDE FIRST HAND EXPERIENCE OF RURAL HEALTH CARE NEEDS. A MAJOR THRUST IS TO ESTABLISH LONG TERM COLLABORATIVE RELATIONSHIPS BETWEEN ACADEMIC INSTITUTIONS AND HEALTH CARE PROVIDERS IN RURAL AREAS. WE WOULD URGE THE RURAL DEVELOPMENT TASK TO SUPPORT FULL APPROPRIATIONS FOR THIS EFFORT IN FY 1990.

THE FY 1989 AGRICULTURE AND RURAL DEVELOPMENT APPROPRIATIONS ACT PROVIDED FUNDING FOR A $854,000 PILOT PROGRAM TO TRAIN DISPLACED FARMERS AND OTHER RURAL WORKERS FOR A SECOND CAREER IN NURSING, MEDICAL TECHNOLOGY AND SOCIAL WORK. THE PROGRAM IS BEING ADMINISTERED BY THE UNIVERSITY OF NORTH DAKOTA (UND) AND NORTH DAKOTA STATE UNIVERSITY (NDSU). THE NDSU EXTENSION SERVICE WILL COORDINATE RECRUITMENT OF DISPLACED RURAL WORKERS AND UND WILL CONDUCT THE OUTREACH HEALTH PROFESSIONALS TRAINING. A LARGE PORTION OF THE FUNDS WILL BE USED TO PURCHASE SATELLITE EQUIPMENT TO TRANSMIT EDUCATIONAL PROGRAMS TO TEN OTHER COMMUNITIES IN THE STATE.

THIS PILOT PROGRAM HAS NO AUTHORIZATION BUT WE WOULD RECOMMEND THAT IT BE INCLUDED AS A DEMONSTRATION PROGRAM IN AT LEAST TEN OTHER STATES IN THE LEGISLATION REPORTED BY YOUR COMMITTEE. THE COST OF SUCH A DEMONSTRATION PROGRAM WOULD BE MODEST BUT IT COULD BE AN EFFECTIVE PROGRAM FOR MEETING A NEED IN RURAL AREAS AND PROVIDE A MEANINGFUL CAREER FOR DISPLACED FARMERS AND RURAL WORKERS.

AGRICULTURAL RESEARCH AND COMMERCIALIZATION CORPORATION

THE NEED TO DEVELOP NEW INDUSTRIAL PRODUCTS FROM AGRICULTURAL COMMODITIES HAS TO BE A KEY AND INTEGRAL PART OF ANY RURAL DEVELOPMENT BILL. IT IS PARTICULARLY IMPORTANT TO AGRICULTURAL STATES LIKE NORTH DAKOTA.

ONE EXAMPLE IS THE USE OF SOYBEAN INK FOR PRINTING PURPOSES. SEVERAL LARGE NEWSPAPERS ARE PRESENTLY USING IT AND I NOTICE THAT MORE AND MORE SENATORS ARE REQUESTING ITS USE FOR THEIR NEWSLETTERS, INCLUDING SENATOR CONRAD WHO JUST RECENTLY MADE THE SWITCH!

THERE ARE TOO MANY OTHER EXAMPLES TO MENTION BUT EACH ONE IS A BENEFIT NOT ONLY TO RURAL AMERICA BUT TO AMERICA AT LARGE.

TIMBER DEPENDENT COUNTIES

FOR THOSE OF US WHO LIVE IN THE RURAL WEST, THERE IS AT LEAST ONE COMMON DENOMINATOR TO OUR LIVES. IT IS OUR CONSTANT COMPANION AND LANDLORD, THE FEDERAL GOVERNMENT. SINCE THE EARLY 1900'S, FEDERAL, STATE AND COUNTY GOVERNMENTS HAVE BEEN ENGAGED IN A PRODUCTIVE AND MUTUALLY BENEFICIAL PARTNERSHIP. THROUGH VARIOUS STATUTES, COUNTIES HAVE SHARED THE PROCEEDS FROM FEDERAL TIMBER SALES AND RECEIPTS FROM GRAZING AND OTHER ACTIVITIES ON NATIONAL GRASSLANDS. THESE NATURAL RESOURCE PAYMENTS TO COUNTIES CAN ONLY BE USED FOR COUNTY ROAD AND SCHOOL BUDGETS, TWO OF THE MOST CRITICAL OPERATIONS OF RURAL COUNTIES. THESE PAYMENTS GO TO CORNERSTONE OF ECONOMIC STABILITY IN RURAL COUNTY BUDGETS AND WE URGE THAT THEY CONTINUE TO SERVE THAT FUNCTION.

UNDER THE REAGAN ADMINISTRATION, ATTEMPTS TO CHANGE THE DISTRIBUTION FORMULAS FROM A 'GROSS TO A NET' BASIS WOULD HAVE REDUCED THE PAYMENTS TO COUNTIES BY AS MUCH AS 80 PERCENT. EVEN THE BUSH ADMINISTRATION HAS PROPOSED A MODIFIED GROSS TO NET CONCEPT THAT MIGHT REDUCE THE RECEIPTS BY AS MUCH AS 18 TO 20 PERCENT. WE VIEW TAMPERING IN ANY WAY WITH THESE LONG STANDING AGREEMENTS AND INTERGOVERNMENTAL PARTNERSHIPS AS A DIRECT THREAT TO THE ECONOMIES OF RURAL COMMUNITIES.

FOR THE LONG TERM HEALTH OF THE TIMBER INDUSTRY AND ITS BENEFICIAL ECONOMIC IMPACTS ON RURAL AREAS, AND FOR SOUND ENVIRONMENTAL MANAGEMENT OF PUBLIC LANDS, WE WHOLEHEARTEDLY SUPPORT EFFORTS TO FUND HIGHER LEVELS OF REFORESTATION. ANOTHER

NECESSARY AND LEGITIMATE USE OF ADDITIONAL FUNDS WOULD BE THE PROVISION OF GRANTS TO COUNTIES DEPENDENT ON NATURAL RESOURCES SUCH AS PROPOSED IN THE PENDING BILL. SUCH FUNDING WOULD ENABLE THEM TO EXPLORE AND DEVELOP ECONOMIC DIVERSIFICATION. THE LIMITED EXPERIENCE WITH DIVERSIFICATION GRANTS SUCH AS ONE TO CODY, WYOMING, INDICATES THAT EVEN A MODEST AMOUNT OF FUNDING CAN BE VERY BENEFICIAL IN HELPING A COMMUNITY DEVELOP NEW ENTERPRISES.

INFRANSTRUCTURE NEEDS

IN CONCLUSION, MR. CHAIRMAN, I WOULD LIKE TO POINT OUT THAT THE LEGISLATION PENDING BEFORE YOUR SUBCOMMITTEE CONTAINS LITTLE FUNDING FOR INFRASTRUCTURE. THIS CLEARLY IS OUR NUMBER ONE NEED IN RURAL COUNTIES. WE REALIZE THAT THE CURRENT FEDERAL BUDGET SITUATION DOES NOT ALLOW FOR LARGE NEW EXPENDITURES. WE PROBABLY SHOULD BE PLEASED WITH WHAT WE GOT IN THE CURRENT FY 1990 BUDGET RESOLUTION.

HOWEVER, WE WOULD URGE THAT THE SENATE RURAL DEVELOPMENT TASK FORCE BE CONTINUED BEYOND THIS YEAR AND BE USED AS A COALITION TO PUSH FOR A RURAL INFRASTRUCTURE BILL. REAUTHORIZATION OF THE SURFACE TRANSPORTATION ACT WILL BE BEFORE THE CONGRESS NEXT YEAR. WE WOULD URGE THE TASK FORCE TO WORK WITH THE ENVIRONMENT AND PUBLIC WORKS COMMITTEE TO MAKE CERTAIN THAT RURAL AREAS RECEIVE A LARGER PORTION OF HIGHWAY TRUST FUNDS RECEIPTS TO REBUILD AND REPAID RURAL ROADS AND BRIDGES.

WE THANK YOU FOR THE OPPORTUNITY TO PRESENT OUR VIEWS ON RURAL DEVELOPMENT. WE WANT TO WORK WITH YOU TO ENACT LEGISLATION THIS YEAR. I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Senator CONRAD. Well, I tell you I very much appreciate your being here today and also your comments and recommendations. I can tell you that in my original letter to Senator Mitchell urging the formation of the Rural Task Force, one of the things I talked about was infrastructure needs. We are up against hard reality here. The hard reality is we have $300 million in budget authority, $100 million in outlays for the first year. That obviously places severe restrictions on what we would like to do. But it is a beginning, and I must say that I am deeply appreciative of what has happened.

If the majority leader had not gotten behind this, if Senator Dole had not decided to participate, if Chairman Leahy and Senator Lugar had not been willing to step forward, we would not be where we are today. In fact, I know where we would be. We would be bogged down with jurisdictional disputes and we would be getting nothing done. So I must say we have gone far. I think that your recommendation for this to continue and for us to move toward an infrastructure bill in the next Congress makes great sense. What we have tried to do now is raise the level of awareness of our colleagues that there is a serious problem out in rural America. Unfortunately, if it is not on the nightly news getting its 2½ minutes, these problems tend to fade from the scope around here.

So what we have to do is raise this back up to a level of awareness that our colleagues understand. There really are needs out there that cry out for action. If I could, Kaye, I would like to ask you to comment on section 1440 funding. Some of us believe it was a strong part of the 1985 farm bill, made some good sense, and provided for outreach. If you could just take a few minutes to describe some of the uses, such as the mental health seminars that have been used to reach out to farmers who are in real trouble so that they understood that it was not just them who was in trouble, and it was not just their fault, but they were caught up in something larger than themselves. Would you comment on how meaningful those have been?

Ms. BRAATEN. Well, I do know that in North Dakota, there has been an enormous number of mental health situations where they have gone out and we have had a lot of counseling. I believe that extension did an awful lot of work in North Dakota on that issue and met individually with farmers and with farm families and we have a major problem out there with the youth in North Dakota, and all of this country—I do not want to just say in North Dakota—with a lack of self-esteem, and when fathers are losing the farms and mothers who are working diligently and it is affecting main street.

So we ought not to just assume that this Farmer Brown out there who is suffering. It is main street. It is the entire State that is suffering. And I believe that a lot of that has done good in North Dakota at least and I believe around the country.

Senator CONRAD. I agree with that. I think just letting people know that they are not alone, that there are other people who are in the same set of circumstances, has had a tremendous effect of creating a support system out there for people who are in real trouble.

Let me talk a little bit more about the revolving loan fund concept because we are, as I indicated earlier, in the midst of a rather strenuous discussion this morning. I would be interested in your viewpoint on revolving loan funds.

I want to be clear about this. This is not just a loan fund. It is a rural investment fund that allows not only loans to be made but equity positions to be taken. I think that is critically important for people to understand. And I think that is very central to what we are doing here. It is a rural investment fund that has all of the components.

So you can take an equity position, you can make a grant, you can make a loan. It is not limited to the loan portfolio alone. In your experience, what are the principles that ought to guide us in developing that kind of program? What are the things that you think we ought to be especially attuned to?

Ms. **Braaten**. Well, interestingly enough, as you know, county government in North Dakota, we have never been able to go out on a limb because we have a lot of Norwegian—I am married to one. I am sorry. I mean I am not sorry I am married to a Norwegian. I do not want to offend anyone in this room, but we have this——

Senator **Conrad**. I am an eighth Norwegian too. OK.

Ms. **Braaten**. Well, anyway, we have not had a lot of opportunity to go out and borrow money from the county position in North Dakota. I believe there have only been like three bonding issues in North Dakota so I cannot speak from a lot of experience on this.

But I did serve on the CDBG committee in North Dakota in North Dakota and the revolving loan fund was very, very active there, and it is really important there that we have an opportunity for a lot of people to participate because there are so many smaller businesses that could be involved and a lot of people that need help. Ralph Tabor is along with me and he would be able to speak more eloquently on that from a county position. And I would be certainly happy to allow him, if you would be so generous to let him do that.

Senator **Conrad**. I would be glad to. Absolutely. If you would just identify yourself for the record?

STATEMENT OF RALPH TABOR, LEGISLATIVE DIRECTOR, NATIONAL ASSOCIATION OF COUNTIES, WASHINGTON, DC

Mr. **Tabor**. Yes. I am Ralph Tabor, the legislative director of the National Association of Counties.

Senator **Conrad**. Welcome. Good to have you here.

Mr. **Tabor**. Thank you. I would imagine, Senator, that one of the concerns that we would have that is on the public accountability and also, I think, on the question about how you are going to be able to use these funds and stretch them as far as you can. And I think again it gets back to the accountability question because it is who sits on that board that is going to make those determinations, and I think that the bill indicates that there should be people from the lending institutions, from the business, but there also should be participation of local government officials.

And I think that is very important. Again, we are making life or death situations here for many people in many businesses, and this how you can stretch it. The other question about public accountability, we are going to have a number of different kinds of organizations making application for this Federal line of credit. Many of them are going to be multicounty agencies that we have created ourselves. There will be probably some local governments. There will be States and there will also be some private nonprofit organizations.

And we feel that for all those organizations that they should at least inform the local governments they are going to serve that they are putting an application in. We do not want to have any surprises here. And that if we want to comment on that particular application, that those views should be considered by the board that is administering this program.

Senator CONRAD. Let me ask you a very specific question because the debate that is now occurring is a question of flexibility. I would be very interested for your reaction to the cap questions, amount of the loan and size of the business. What is in the bill now is a $1 million cap in terms of sales, that a business that has over $1 million of sales would not be eligible.

Number two, that the amount of the loan per business would be capped at $200,000. I would be very interested in your reaction to those.

Mr. TABOR. I was very interested in what Mr. Page had said in answer to that same question.

Senator CONRAD. It was extremely good testimony by Mr. Page.

Ms. BRAATEN. Yes. I was going to say do we pass the test if we give the same answers? [Laughter.]

Mr. TABOR. I would think that if you were trying to go beyond the $1 million that you might want to give some waiver authority to the administrator because there could be a situation like he cited, buying some equipment and it could be able to have a lot of different jobs that would be coming in on it, and that in——

Senator CONRAD. Great minds must think alike because that is exactly what we have just been discussing. One possibility is that there be a waiver provision. Obviously, we want to be targeting this.

Mr. TABOR. Yes.

Senator CONRAD. We have a limited amount of money and we want to target it.

Mr. TABOR. If you can get authority to the administrator, he could make those exceptions, but I do not think you are going to be able to cover every situation in a bill.

Senator CONRAD. That is exactly right.

Mr. TABOR. There are going to have to be some things in regulations.

Senator CONRAD. One of the things we want to avoid is micromanaging from here. If there is one lesson we ought to have learned, micromanaging from Washington does not work. We have to trust people who are going to be making these ultimate judgments and it seems to me to the greatest extent possible providing flexibility. These are smart people out there. They are responsible people. Let them make these decisions, and let us not hamstring everything we do by trying to make the decision for them. I know that you are supportive of that concept.

Well, I very much appreciate this panel's participation, and it is especially nice to have you here, Kaye.

Ms. **Braaten**. Thank you.

Senator **Conrad**. Again, I want to thank everyone who has participated here today. We will leave the hearing record open for 1 week for additional comments that anyone might want to submit or for further questions that members might want to submit in writing. Thank you very much.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

101st CONGRESS
1st Session

S. 1036

To improve the economic, community, and educational well-being of rural America, and for other purposes.

IN THE SENATE OF THE UNITED STATES

May 18 (legislative day, January 3), 1989

Mr. Leahy (for himself, Mr. Heflin, Mr. McConnell, Mr. Pryor, Mr. Boren, Mr. Harkin, Mr. Conrad, Mr. Fowler, Mr. Daschle, Mr. Baucus, Mr. Kerrey, Mr. Mitchell, Mr. Burdick, Mr. Bumpers, Mr. Specter, Mr. Ford, Mr. Pressler, Mr. Gore, Mr. Sasser, Mr. Grassley, Mr. Exon, Mr. Levin, Mr. Bryan, Mr. Sarbanes, Mr. Lott, Mr. Sanford, Mr. Kohl, Mr. Shelby, Mr. Matsunaga, Mr. Bentsen, and Mr. Adams) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To improve the economic, community, and educational well-being of rural America, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Rural Partnerships Act of 1989".

SEC. 2. TABLE OF CONTENTS.

The table of contents is as follows:

Sec. 1. Short title.

Sec. 2. Table of Contents.
Sec. 3. Findings and purpose.
Sec. 4. Definitions.

TITLE I—RURAL BUSINESS AND JOB CREATION

Subtitle A—Rural Partnerships Investment Board

Sec. 101. Rural Partnerships Investment Board.
Sec. 102. Establishment of Investment Fund.
Sec. 103. Local revolving funds.
Sec. 104. Compliance and enforcement.

Subtitle B—Rural Economic Development Administered by the Rural Electrification Administration

Sec. 110. Assistant Administrator for Economic Development.
Sec. 111. Technical assistance unit.
Sec. 112. Deferment of payment on economic development loans.
Sec. 113. Water and waste facility financing.
Sec. 114. Targeting investments by electrification borrowers.
Sec. 115. Rural economic development.
Sec. 116. Promoting rural development by REA telephone borrowers.

TITLE II—ENHANCING HUMAN RESOURCES

Sec. 201. Rural star schools educational opportunities program.
Sec. 202. Rural medical link telecommunications program.
Sec. 203. Rural business link telecommunications program.

TITLE III—FOCUS ON RURAL AMERICA BY THE DEPARTMENT OF AGRICULTURE

Sec. 301. Extension Service.
Sec. 302. Rural development assistance information and availability.
Sec. 303. Report on coordination of rural development activities.
Sec. 304. Report on data processing feasibility in rural areas.

TITLE IV—RURAL BUSINESS AND EMPLOYMENT ASSISTANCE

Sec. 401. Local technical assistance grants.
Sec. 402. Providing assistance through local governments and nonprofit private corporations.
Sec. 403. Rural technology assistance grants.
Sec. 404. Rural emergency assistance loans.

TITLE V—NATIONAL RURAL INFORMATION CENTER CLEARINGHOUSE

Sec. 501. National rural information center clearinghouse.

TITLE VI—WATER AND SEWER ASSISTANCE.

Sec. 601. Water and waste facility grants.
Sec. 602. Emergency community water assistance grant program.
Sec. 603. Loan rates applicable to health care and related facilities.
Sec. 604. Rural waste water treatment circuit rider grant program.

TITLE VII—MISCELLANEOUS

Sec. 701. Monitoring the economic progress of rural America.
Sec. 702. Historic preservation requirements.
Sec. 703. Sewer and water lending by banks for cooperatives.
Sec. 704. Employment and training in rural areas.
Sec. 705. Vehicles necessary to haul fuel or water.
Sec. 706. Assistance to communities dependent on natural resources.
Sec. 707. Assisting distressed rural hospitals and health care facilities.

TITLE VIII—EFFECTIVE DATE AND IMPLEMENTATION

Sec. 801. Effective date.

SEC. 3. FINDINGS AND PURPOSE.

(a) FINDINGS.—Congress finds that—

(1) the economic well-being of rural America is vital to overall national growth and prosperity;

(2) many rural areas suffer from a lack of industrial and business diversity;

(3) rural poverty and unemployment rates are significantly higher than metropolitan rates, and rural per capita income is substantially lower than metropolitan per capita income; and

(4) a more robust rural economy will make the United States more competitive in world markets.

(b) PURPOSE.—It is the purpose of this Act to promote a national rural development strategy, through procedures flexible enough to allow for regional and local differences, to promote the growth and economic diversification of rural America, and to increase business, educational, and employment opportunities in rural America.

SEC. 4. DEFINITIONS.

As used in this Act:

(1) **Board.**—The term "Board" means the Board of Directors of the Rural Partnerships Investment Board established in section 101(b).

(2) **Eligible entity.**—The term "eligible entity" means a corporation that—

(A) is a nonprofit private corporation or a public entity that is—

(i) the governing body of each public regional organization (such as the governing body of an economic development district) that is chartered or otherwise organized under State law for the purpose of promoting economic development;

(ii) the agency of each State that is primarily responsible for rural economic development programs within the State;

(iii) the governing body of a county or other political subdivision of a State;

(iv) the governing body of a town or township within a State;

(v) an incorporated public organization or a nonprofit private community development corporation, or similar nonprofit private organization, that is chartered or otherwise organized under State law for the purpose of promoting economic development; or

(vi) an Indian tribe (as defined in section 4(b) of the Indian Self-Determination and Education Assistance Act (25 U.S.C. 450b)), any Indian organization or entity chartered under the Act of June 18, 1934 (25 U.S.C. 1001 et seq.) commonly known as the "Indian Reorganization Act", or any tribal organization (as defined in the section 4(c) of the Indian Self-Determination and Education Assistance Act (25 U.S.C. 450b(c)); and

(B) meets the requirements of paragraphs (3) and (5) of section 102(c);

(C) possesses the powers reasonably necessary to perform the functions and activities described in this subtitle;

(D) has a professional staff and management ability (including adequate accounting, legal, and business servicing abilities or experience); and

(E) meets any other requirements established by the Board to carry out this subtitle.

(3) INVESTMENT BOARD.—The term "Investment Board" means the Rural Partnerships Investment Board established in section 101(a).

(4) LOCAL BUSINESS.—The term "local business" means—

(A)(i) a business concern, located in a rural area, that—

(I) is incorporated under State law; and

(II) is independently owned and operated as defined by the Board; and

(ii) an individual who plans to organize and operate an entity of the type described in subparagraph (A); and

(B) that meets additional requirements that are established by the Board to carry out the intent of this Act.

(5) METROPOLITAN COUNTY.—The term "metropolitan county" means a county that contains at least a part of a metropolitan statistical area as designated by the Office of Management and Budget.

(6) RURAL AREA.—The term "rural area" means all territory of a State that is not within a metropolitan statistical area or the outer boundary of any city or town having a population of 20,000 or more based on the latest dicennial census of the United States.

(7) RURAL FUND.—The term "Rural Fund" means the Rural Business Investment Fund established under section 102(a).

(8) SECRETARY.—The term "Secretary" means the Secretary of Agriculture, unless otherwise specified in this Act.

(9) STATE.—The term "State" means any of the 50 States.

TITLE I—RURAL BUSINESS AND JOB CREATION

Subtitle A—Rural Partnerships Investment Board

SEC. 101. RURAL PARTNERSHIPS INVESTMENT BOARD.

(a) ESTABLISHMENT.—There is established a "Rural Partnerships Investment Board" to provide lines of credit to eligible entities whose applications have been approved by the Board, to enable such entities to establish, maintain, or expand revolving funds that are used for loans, or to guarantee loans, or for other investments in new or expanding rural local businesses in conjunction with loans or other investments made by banks (as defined in section 2(c) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841(c))), savings and loan associations (as defined in title IV of the National Housing Act, as amended (12 U.S.C. 1724 et seq.)), or community development credit unions.

(b) BOARD OF DIRECTORS.—

(1) IN GENERAL.—The Board of Directors of the Investment Board shall consist of—

(A) the Administrator of the Rural Electrification Administration;

(B) the Administrator of the Farmers Home Administration;

(C) the Administrator of the Extension Service of the Department of Agriculture; and

(D) two members who shall be experienced in rural development and related matters to be appointed by the President with the advice and consent of the Senate, of which each member shall be from a separate political party.

(2) CHAIRPERSON.—The Chairperson of the Board shall be elected by the members of the Board from among the Board members who are Administrators under subparagraphs (A) through (C) of paragraphs (1), and shall serve for a 2 year period. Such Chairperson may serve consecutive terms.

(3) VACANCIES.—Vacancies on the Board shall be filled in the same manner as the vacant position was previously filled.

(4) CHIEF EXECUTIVE OFFICER.—A chief executive officer shall be selected by the Board and shall serve at the pleasure of the Board.

(5) QUORUM.—A quorum shall consist of three members of the Board. All decisions made by the Board shall require an affirmative vote of a majority of the members.

(6) COMPENSATION.—Members of the Board—

(A) appointed under subparagraphs (A), (B), and (C) of paragraph (1) shall receive reasonable allowances for necessary expenses of travel, lodging, and subsistence incurred in attending meetings and other activities of the Investment Board, as set forth in the bylaws issued by the Board of Directors, except that such level shall not exceed the maximum fixed by subchapter 1 of chapter 57 of title 5, United States Code, for officers and employees of the United States; and

(B) appointed under subparagraph (D) of paragraph (1) shall receive compensation for the time devoted to meetings and other activities at a daily rate not to exceed the daily rate of compensation prescribed for Level III of the Executive Schedule under section 5314 of title 5, United States Code, and reasonable allowances for necessary expenses of travel, lodging, and subsistence incurred in attending meetings and other activities of the Investment Board, as set forth in the bylaws issued by the Board of Directors, except that such level shall not exceed the maximum fixed by subchapter 1 of chapter 57 of title 5, United States Code, for officers and employees of the United States.

(7) RULES AND RECORDS.—The Board shall adopt such rules and procedures as it may consider appropriate for the transaction of the business of the Investment Board, and shall keep permanent and accurate records and minutes of its acts and proceedings.

(c) POWERS OF THE INVESTMENT BOARD.—The Investment Board shall be a body corporate that shall have the power to—

(1) operate under the direction of its Board;

(2) adopt, alter, and use a corporate seal, which shall be judicially noted;

(3) provide for one or more officers, employees, and agents, as may be necessary, define their duties, and require surety bonds or make other provisions against losses occasioned by acts of such persons;

(4) hire, promote, compensate, and discharge officers and employees of the Investment Board, without

regard to title 5, United States Code, except that no such officer or employee shall receive an annual rate of basic pay in excess of the rate prescribed for Level III of the Executive Schedule under section 5314 of title 5, United States Code;

(5) prescribe by its Board its bylaws, that shall be consistent with law, and that shall provide for the manner in which—

(A) its officers, employees, and agents are selected;

(B) its property is acquired, held, and transferred;

(C) its general operations are to be conducted; and

(D) the privileges granted by law are exercised and enjoyed;

(6) with the consent of any executive department or independent agency, use the information, services, staff, and facilities of such in carrying out this subtitle;

(7) enter into contracts and make advance, progress, or other payments with respect to such contracts;

(8) sue and be sued in its corporate name, and complain and defend in courts of competent jurisdiction;

(9) acquire, hold, lease, mortgage, or dispose of, at public or private sale, real and personal property, and otherwise exercise all the usual incidents of ownership of property necessary and convenient to its operations;

(10) modify or consent to the modification of any contract or agreement to which it is a party or in which it has an interest under this subtitle;

(11) make such rules and regulations as the Board determines necessary and appropriate to carry out the authority vested in the Board under this act;

(12) procure the temporary (not in excess of 2 years) or intermittent services of experts or consultants or organizations thereof, and in such cases such services shall be without regard to the civil service and classification laws and without regard to section 5 of title 41, at rates not to exceed the daily equivalent of the highest rate payable under section 5332 of title 5, United States Code, including traveltime, and while such individual is away from the home or regular place of business of such individual, travel expenses as authorized under section 5703 of title 5, United States Code; and

(13) exercise other powers as set forth in this subtitle, and such other incidental powers as are necessary

to carry out its powers, duties, and functions in accordance with this subtitle.

SEC. 102. ESTABLISHMENT OF INVESTMENT FUND.

(a) ESTABLISHMENT.—

(1) IN GENERAL.—There is established in the Treasury of the United States a fund for the use of the Board in carrying out the provisions of this subtitle that shall be known as the "Rural Business Investment Fund".

(2) AVAILABILITY.—The Fund established under paragraph (1) shall be available to the Board to provide lines of credit for revolving funds to be operated by approved eligible entities to serve local businesses in rural areas.

(b) USE.—

(1) LINES OF CREDIT.—Amounts contained in the fund established under subsection (a) shall be used by the Board to provide lines of credit in amounts determined appropriate by the Board, but in no event shall any such line of credit exceed $750,000 to an approved eligible entity. Each line of credit shall be made available over a period of time established by the Board for each such entity, but in no event shall any such period of time extend beyond the date on which

the Investment Board is terminated under section 103(m).

(2) EXCEPTION.—Notwithstanding paragraph (1), if the approved eligible entity is the agency of any State that is primarily responsible for the rural economic development programs within such State, and if such agency agrees to serve all rural areas of the State regarding assistance provided under this subtitle, the Board may provide a line of credit to such agency in an amount that shall not exceed $1,250,000, to be provided in the manner described in paragraph (1).

(3) AMOUNTS DRAWN FROM LINE.—Amounts drawn from each line of credit by each approved eligible entity shall be used solely as provided under this subtitle.

(c) APPLICATIONS OF ELIGIBLE ENTITIES FOR LINES OF CREDIT.—

(1) FEDERAL REGISTER NOTICES.—The Board shall publish notices of solicitations for applications for lines of credit in the Federal Register and such notices shall contain—

(A) the application procedures established by the Board;

(B) the application requirements of paragraph (3);

(C) the deadlines for submission of applications (which in no event shall be less than 150 days after the publication of the applicable notice);

(D) a copy of all available response forms;

(E) a summary of the functions of the Board regarding applications; and

(F) other information determined appropriate by the Board.

(2) SUBMISSION AND CONSIDERATION.—An eligible entity that desires to receive a line of credit under this subtitle shall submit an application to the Board at such time, in such form, and containing such information and documentation, including a description of the areas to be served, as the Board shall prescribe under paragraph (1), and the Board shall consider each such application based on the requirements of this subtitle.

(3) ELIGIBLE ENTITY.—

(A) MATCHING FUNDS.—In order for an application to be considered for approval by the Board for a line of credit, each eligible entity that submits an application shall—

(i) certify in writing that it shall use such funds as part of a revolving fund to invest in, lend funds to, or guarantee loans made to, local businesses in accordance with this subtitle; and

(ii)(I) agree to provide matching funds (Federal funds shall not be used to satisfy such matching requirement), in amounts that are at least equal to the amount of the line of credit to be provided by the Board, that shall be in the form of—

(aa) cash or cash equivalents; or

(bb) letters of credit in favor of the eligible entity issued or submitted by banks, savings and loan associations, insurance companies, similar Federally regulated financial institutions, local or State governments or private philanthrophic foundations, as determined appropriate and acceptable by the Board; or

(II) demonstrate, through procedures determined appropriate and acceptable by the Board, that banks, savings and loan associations, or community development credit unions are prepared to participate with the eligible entity in a lending, guarantee, or investment program for the benefit of local businesses, and that the total financial commitment demonstrated by the letters of intent or other documents is at least equal to the value of the line of credit for which the eligible entity is applying.

(B) EXCEPTION FOR CERTAIN ELIGIBLE ENTITIES.—If the average per capita income level of the counties containing the rural areas served by an eligible entity is less than 70 percent of the national average per capita income for the most recent year for which such information is available, each such eligible entity shall only be required to match 50 percent of the funds provided by the Board in the same manner described in paragraph (3)(A)(ii)(I) or (II). A list of the average per capita income and population of each county in the United States that contains rural areas, and the national average per capita income for such year, shall be published in the Federal Register and otherwise made available by the Board to the public.

(4) MONITORING COMPLIANCE.—The Board shall establish procedures to monitor the compliance of each eligible entity participating in the program authorized by this subtitle with the requirements of this subtitle.

(5) ELIGIBLE ENTITY REVOLVING FUND REQUIREMENT.—To be eligible to receive a line of credit from the Rural Fund, the applicant eligible entity shall—

(A) demonstrate its ability or potential capacity to make sound business, lending and investment decisions and to provide business counseling and technical assistance;

(B) demonstrate its ability to operate consistent with the requirements of this subtitle and to increase the availability of credit in rural areas to promote the creation or expansion of viable businesses in rural areas;

(C) identify the proposed service area, which shall have common characteristics (such as a similar industrial, labor, or other markets, similar geographic or socioeconomic conditions, or other related considerations), and, to the extent that such area includes any towns or townships, such towns or townships shall be served in their entirety; and

(D) provide an assurance that its service area will consist of an area within the State whose median household income was less than the Statewide nonmetropolitan median household income for such State, except that if the exception described in subsection (b)(2) is applicable, the requirements of subparagraphs (C) and (D) shall not apply.

(6) FACTORS IN APPROVAL OF APPLICATIONS.—In determining which applications to approve, and the maximum amount of funds to be offered in each line of credit, the Board shall grant a preference to eligible entities—

(A) that have experience in serving local credit or equity needs and in making sound business and investment decisions, or that have the ability to serve such needs and make such decisions;

(B) whose boards of directors, or governing bodies if no such board exists, are composed of a cross-section of individuals (such as individuals with a business, community development or regional development background, or individuals who are State, local or county government officials, or individuals involved in banking, financial, or other investment activities);

(C) that agree, and are able, to provide funds that are in excess of the funds to be provided by the Board to such eligible entity under this subtitle;

(D) that are likely to stimulate significant job creation or retention and new business creation or business expansion per dollar of funds provided under this section;

(E) that submit applications that demonstrate the ability and willingness to provide continuing technical and management assistance, training, financial and business guidance, and planning, to approved local businesses;

(F) that demonstrate that the activities of the eligible entity are consistent with State, county or local goals, whichever is applicable, regarding long-term economic growth and community development; and

(G) that submit applications containing a comprehensive investment strategy, developed in consultation with the applicable State, regional, county or local unit of government.

(7) GEOGRAPHIC SPREAD.—

(A) IN GENERAL.—In awarding lines of credit under this section the Board shall attempt, as much as reasonably practicable and consistent with sound financial judgment, to assure that all rural regions of the United States benefit from such awards.

(B) MINIMUM AMOUNT OF FUNDS.—After considering the availability of qualified applications, and if consistent with good investment practices and the other requirements of this subtitle, the Board shall approve the application of at least one eligible entity in each of at least 45 States. The Board shall, to the maximum extent practicable and appropriate, ensure that eligible entities that are approved by the Board in any given State receive at least $750,000 (per State) out of the funds provided under subsection (d).

(C) MAXIMUM AMOUNT OF FUNDS.—The total amount of funds provided under this subtitle to eligible entities in any State shall not exceed $10,000,000.

(D) SPECIAL PROGRAM.—

(i) IN GENERAL.—The Board shall issue regulations to establish a program that targets the benefits of the Federal lines of credit provided under this section to those rural areas and residents with special needs.

(ii) FIVE PERCENT RULE.—If consistent with sound investment practices, not less than 5 percent of the funds appropriated under subsection (d) shall be issued to eligible entities that will serve—

(i) local businesses located in very distressed rural areas, as defined by the Board; and

(ii) local businesses located in rural areas that provide beneficial services to rural residents such as improved medical, hospital, or health care, licensed day care activities, improved services for the handicapped, the disabled, the elderly or other needy individuals, improved educational opportunities, improved public transportation services for needy individuals, or other related services as determined appropriate by the Board.

(d) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $100,000,000 in each of fiscal years 1990 through 1992 to be made available to the Rural Fund and the Board for the purpose of carrying out this subtitle. Amounts appropriated under this subsection shall remain available until expended or until the Board is terminated.

(e) RELOCATION AND REFINANCING.—The Board shall establish rules and procedures to prohibit eligible entities from using the assistance received under this subtitle for loans and investments, or for issuing guarantees, that would—

(1) facilitate the relocation of a local business from one community to another; or

(2) refinance the existing debt of a local business, except that such refinancing may be undertaken with such assistance if it is undertaken in conjunction with a substantial expansion effort by the local business.

SEC. 103. LOCAL REVOLVING FUNDS.

(a) ESTABLISHMENT.—

(1) IN GENERAL.—Each eligible entity approved by the Board to participate in the program established under this subtitle shall establish a local revolving fund account in which to deposit—

(A)(i) amounts received from the Board under this subtitle;

(ii) any local matching funds received under section 102(c)(3)(A); and

(iii) any profits or income derived from the activities of the revolving fund established under this subsection; less

(B) reasonable operating expenses or losses incurred in administering such fund.

(2) PLACE OF ESTABLISHMENT.—Each local revolving fund established under this subsection may be

established in one or more member banks of the Federal Reserve System or any Federally insured State nonmember bank (as defined in section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813(b)) and the funds, except as used as authorized in subsection (b), shall be held in cash and receive interest or be invested in direct obligations of the United States or in obligations guaranteed by the United States or an agency thereof.

(b) USE OF FUND.—Amounts in the local revolving fund may be used—

(1) to provide debt or equity capital, or loan guarantees, to local approved businesses as authorized in this subtitle, under procedures established by the Board;

(2) to cover the costs of providing training, business or financial planning, or management or technical assistance to local approved businesses in amounts that do not exceed amounts or levels described in standards established by the Board;

(3) if financial investments are made in the eligible entity in accordance with section 102(c)(3)(A)(ii)(I)(aa) or (bb), to provide for a return of capital to non-Federal investors in the revolving fund, except that if such revolving fund experiences capital or other losses

the share of returned capital under this paragraph shall be proportionately, or otherwise appropriately reduced to reflect such loss, under procedures established by the Board; or

(4) to cover reasonable operating or capital expenses, losses, or for other charges as prescribed in rules or standards established by the Board.

(c) DECISIONS CONCERNING FUNDING.—Eligible entities that receive a line of credit under section 102 shall make case-by-case determinations concerning applications submitted by each local business for loans, equity capital or loan guarantees, under general procedures and requirements established by the Board.

(d) REQUIREMENT OF PARTNERSHIPS FOR LOANS OR INVESTMENTS—Funds in each local revolving fund shall be loaned or invested only if one or more banks, savings and loan institutions, or community development credit unions, under procedures established by the Board, provide at least 50 percent of each investment or loan made by each such revolving fund to each such local business, or provide the funds that are guaranteed by such local revolving fund.

(e) INVESTMENT SIZE LIMITS.—

(1) IN GENERAL.—Partnership loans, investments, and any guarantees made by each eligible entity that receives assistance from the Rural Fund, shall not

exceed $500,000, in total, in any given calendar year, to the same approved local business or to other local businesses that are financially connected or otherwise related to such local business as defined by the Board. The provisions of this subtitle shall not limit the total amount of loans from sources other than eligible entities that each local business may receive.

(2) INELIGIBILITY.—Any local business that employs 100 or more employees, shall not be eligible to receive assistance from a local revolving fund that receives assistance under this subtitle.

(f) SUBORDINATED INTEREST OF LOCAL REVOLVING FUND.—If a bank, savings and loan association, or a community development credit union has made an investment in a local business in conjunction with an investment made out of the revolving fund of an approved eligible entity, the amount invested by such revolving fund in such local business may be subordinated to the other investments to any degree, and in any manner.

(g) OTHER INVESTORS.—A bank, savings and loan association, or community development credit union that contributes capital to an eligible entity that receives Federal assistance under this subtitle may establish contractual arrangements with such entity concerning the return of such investments in the local revolving fund consistent with subsection (b)(3).

(h) ADDITIONAL CAPITAL.—The Board shall promulgate regulations that provide each participating eligible entity with a sufficient amount of time to obtain additional capital or lines of credit, if any investors, pursuant to the contract with the eligible entity under subsection (g), withdraw some or all of their investment.

(i) CONTINUATION OF LINE OF CREDIT.—A line of credit provided to an approved eligible entity under section 102 for use in a local revolving fund shall continue to be available to be drawn down upon until the Investment Board is terminated or until the line of credit is canceled, revoked or suspended by the Board as described in subsections (j), (k), or (l).

(j) CANCELLATION OF LINE OF CREDIT.—The Board may cancel any prospective payments to be made from any approved line of credit under this subtitle if the Board determines that the eligible entity participating in the program established under this subtitle made investments or acted in a manner that was inconsistent with the provision of this subtitle.

(k) CONTINUATION OF BUSINESS PROMOTION ACTIVITIES.—

(1) INITIAL FEDERAL CONTRIBUTION.—The Federal assistance provided to each eligible entity under this subtitle shall become the property of each such entity on the termination of the Investment Board if—

(A) the eligible entity that administers the local revolving fund has operated the fund in a manner that is consistent with this subtitle as determined by the Board; and

(B) the eligible entity contracts with the Board and the Secretary to continue to provide lending, investment, and guarantee assistance consistent with this subtitle.

(2) EXCEPTION.—

(A) DEVELOPMENT OF MONITORING PROCEDURES.—Not later than the date on which the Investment Board is terminated, the Secretary shall develop procedures to enable the Secretary to monitor the operations of eligible entities that receive Federal assistance under this subtitle which continue to exist on the date the Board is terminated.

(B) REFUND OF FUNDS.—Notwithstanding paragraph (1), if the Secretary finds that the purpose of any eligible entity is no longer to promote business development in a manner consistent with this subtitle, the Secretary shall order the eligible entity to refund to the Secretary of the Treasury an amount equal to the amount of funds drawn out of the Federal line of credit issued to the eligible entity together with an appropriate amount of interest on such amount, as determined by the Secretary.

(C) HEARINGS.—The Secretary shall establish rules and procedures—

(i) to determine the amount of interest required under subparagraph (B); and

(ii) to provide a hearing to any eligible entity aggrieved by any order of the Secretary under this paragraph if such entity requests such a hearing within 30 days after receiving the order of the Secretary.

(D) JUDICIAL REVIEW.—

(i) RIGHT.—If any eligible entity determines that it is aggrieved by any final decision of the Secretary issued under subparagraph (B), it may obtain judicial review of such decision by filing, not later than 30 days after the date of the delivery or service of the final decision, a complaint against the United States in the United States court for the district in which such entity resides or is engaged in business.

(ii) TRIAL DE NOVO.—An action commenced under clause (i) shall be by a trial de novo by the court.

(iii) EFFECT OF ORIGINAL DECISION.—During the pendency of an action for judicial review under this clause, or an appeal of a decision concerning such action, the administrative action of the Secretary contained in the decision that is under review shall be and remain in full force and effect except as provided in clause (iv).

(iv) STAY OF ACTION.—The requirement of clause (iii) shall not apply, and the court may issue a stay of such action, if

(I) an application to the court is filed not later than 10 days after the filing of the original action in such court;

(II) a hearing on such application has been held; and

(III) the court, after considering the application filed under this clause, determines that the applicant is likely to prevail on the merits of the original action and that irreparable injury will be done if a stay of such action is not issued.

(v) INTEREST.—Interest shall accrue in favor of the Secretary on any amounts determined to be due to the Secretary by the final judicial disposition.

(l) ANNUAL REPORTS TO THE BOARD.—

(1) IN GENERAL.—Each eligible entity that receives assistance under this subtitle shall annually prepare and submit to the Board, at such time, and in such form as the Board may require, a report describing the financial condition of the eligible entity, and the investments, cash revenues, income from investments, loans made, equity positions taken, guarantees issued, losses sustained or taken, operating expenses, loss rates, and such other matters as the Board determines appropriate concerning the eligible entity.

(2) POST TERMINATION.—After the Board terminates under subsection (m), the reports required under paragraph (1) shall be submitted to the Secretary who shall stand in the same position as the Board under such paragraph.

(m) TERMINATION OF BOARD.—The Investment Board established by section 101(a) shall terminate on the last day of the 5th calendar year following the date of enactment of this subtitle.

SEC. 104. COMPLIANCE AND ENFORCEMENT.

(a) REVOCATION OF LINE OF CREDIT AND REFUND.—

(1) GROUNDS FOR REVOCATION.—A line of credit shall be revoked or suspended by the Board, and a full refund of the Federal investment shall be requested by the Board—

(A) for false statements knowingly made in any written statement required under this subtitle, or under any regulation or Federal Register notice issued under this subtitle;

(B) if any written statement required under this subtitle, or under any regulation or Federal Register notice issued under this subtitle, fails to state a material fact necessary in order to make the statement not misleading in the light of the circumstances under which the statement was made;

(C) for willful or repeated violation of, or willful or repeated failure to observe, any provision of this subtitle;

(D) for willful or repeated violation of, or willful or repeated failure to observe, any rule or regulation authorized under this subtitle; or

(E) for violation of, or failure to observe, any cease and desist order issued by the Board under this subsection.

(2) CEASE AND DESIST ORDERS.—Where an eligible entity has not complied with any provision of this subtitle, or of any regulation issued pursuant thereto, or is engaging or is about to engage in any acts or practices that constitute or will constitute a violation of such subtitle or regulation, the Board may order such entity to cease and desist from such action or failure to act. The Board may further order such entity to take such action or to refrain from such action as the Board determines necessary to insure compliance with this subtitle and the regulations issued thereunder.

(3) ORDER TO SHOW CAUSE, CONTENTS, AND HEARING.—

(A) ORDER.—Prior to revoking or suspending a line of credit under paragraph (1), or issuing a cease and desist order under paragraph (2), the Board shall serve on the eligible entity an order to show cause why an order revoking or suspending the line of credit or a cease and desist order should not be issued.

(B) CONTENTS.—An order to show cause under subparagraph (A) shall contain a statement of the matters of fact and law asserted by the Board and the legal authority and jurisdiction under which a hearing is to be held, and shall state that a hearing will be held before the Board at a time and place stated in the order.

(C) HEARING.—If after hearing under subparagraph (B), or a waiver thereof, the Board determines on the record that an order revoking or suspending the line of credit, or a cease and desist order should issue, or an order requiring a refund of the Federal investment in addition to reasonable interest thereon should issue, the Board shall promptly issue such order, which shall include a statement of the findings of the Administration and the reasons for such findings and specify the effective date of the order, and shall cause the order to be served on the entity.

(4) SUBPOENA OF PERSONS, BOOKS, PAPERS, AND DOCUMENTS; FEES AND MILEAGE; ENFORCEMENT.—

(A) SUBPOENA.—The Board may require by subpoena the attendance and testimony of witnesses and the production of all books, papers, and documents relating to the hearing from any place in the United States.

(B) FEES AND MILEAGE.—Witnesses summoned before the Board shall be paid by the party at whose instance such witnesses were called the same fees and mileage that are paid witnesses in the courts of the United States.

(C) ENFORCEMENT.—In the case of disobedience to a subpoena under this paragraph, the Board, or any party to a proceeding before the Board, may invoke the aid of any court of the United States in requiring the attendance and testimony of witnesses and the production of books, papers, and documents.

(5) PETITION TO MODIFY OR SET ASIDE ORDER; FILING, TIME AND PLACE, ADMINISTRATION TO SUBMIT RECORD; ACTION OF COURT; REVIEW.—

(A) IN GENERAL.—An order issued by the Board under this subsection shall be final and conclusive unless not later than 30 days after the service thereof the eligible entity appeals to the United States court of appeals for the circuit in which such corporation has its principal place of business by filing with the clerk of such court a petition praying that the order of the Board be set aside or modified in the manner stated in the petition.

(B) FILING.—

(i) LEAVE OF COURT.—After the expiration of the 30-day period referred to in subparagraph (A), a petition may be filed only by leave of court on a showing of reasonable grounds for failure to file the petition prior to the expiration of such period.

(ii) CERTIFICATION.—The clerk of the court shall, on filing, cause a copy of the petition to be delivered to the Board and the Board shall certify and file in the court a transcript of the record on which the order was entered. If prior to the filing of such record the Board amends or sets aside its order, in whole or in part, the petitioner may amend the petition within such time as the court may determine, after providing notice to the Board.

(C) STAY OR SUSPENSION OF ORDER.—The filing of a petition for review under this paragraph shall not of itself stay or suspend the operation of the order of the Board, but the court of appeals in its discretion may restrain or suspend, in whole or in part, the operation of the order pending the final hearing and determination of the petition.

(D) ACTION BY COURT.—The court may affirm, modify, or set aside the order of the Board.

(E) ADDITIONAL EVIDENCE.—

(i) DETERMINATION.—If the court determines that the just and proper disposition of the case requires the taking of additional evidence, the court shall order the Board to reopen the hearing for the taking of such evidence, in such manner and on such terms and conditions as the court may consider appropriate.

(ii) FINDINGS.—The Board may modify its findings as to the facts, or make new findings, by reason of the additional evidence taken under this subparagraph, and it shall file its modified or new findings and the amendments, if any, of its order, with the records of such additional evidence.

(F) CONSIDERATION OF OBJECTIONS.—No objection to an order of the Board shall be considered by the court unless the objection was argued before the Board or, if it was not so argued, unless there were reasonable grounds for failure to do so.

(G) REVIEW.—The judgment and decree of the court affirming, modifying, or setting aside any such order of the Board shall be subject only to review by the Supreme Court of the United States on certification or certiorari as provided in section 1254 of title 28.

(6) ENFORCEMENT OF ORDER.—If the entity against which or against whom an order is issued under this subsection fails to obey the order, the Board may apply to the United States Court of appeals, within the circuit where the entity has its principal place of business, for the enforcement of the order, and shall file a transcript of the record on which the order complained of was entered. On the filing of the application the court shall cause notice thereof to be served on the entity. The evidence to be considered, the procedure to be followed, and the jurisdiction of the court shall be the same as is provided in paragraph (5) for applications to set aside or modify orders.

(b) INVESTIGATIONS AND EXAMINATIONS.—

(1) AUTHORITY.—

(A) IN GENERAL.—The Board may conduct such investigations as the Board considers necessary to determine whether an eligible entity has engaged in any acts or practices that constitute or will constitute a violation of any provision of this subtitle, or of any regulation issued under this subtitle, or of any order issued under this section.

(B) FILING OF STATEMENTS.—The Board shall permit any individual to file a statement with the Board that is in writing, under oath or otherwise as the Board shall determine, as to all the facts and circumstances concerning the matter to be investigated.

(C) SUBPOENA.—For the purpose of any investigation under this subsection, the Board may administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, and require the production of any books, papers, and documents that are relevant to the inquiry. Such attendance of witnesses and the production of any such records may be required from any place in the United States.

(D) Refusal to obey.—In case of contumacy by, or refusal to obey a subpoena issued to, any individual, including an entity or corporation, the Board may invoke the aid of any court of the United States within the jurisdiction of which such investigation or proceeding is carried on, or where such individual resides or carries on business activity, in requiring the attendance and testimony of witnesses and the production of books, papers, and documents, and such court may issue an order requiring such individual to appear before the Board, to produce records, if so ordered, or to give testimony touching the matter under investigation.

(E) Contempt.—A failure to obey an order of the court under this subsection shall be punishable by such court as a contempt thereof. All process in any such case may be served in the judicial district where such individual is an inhabitant or wherever such individual may be found.

(2) Examinations and reports.—

(A) Examinations.—An eligible entity under this subtitle shall be subject to examinations made by the Board through examiners selected or approved by the Board, and the cost of such examinations, including the compensation of the examiners, may in the discretion of the Board be assessed against the entity examined and when so assessed shall be paid by such entity.

(B) Reports.—Such entities shall prepare and submit reports to the Board at such times and in such form as the Board may require.

(3) Examinations.—Each eligible entity shall be examined and audited at least once every 2 years, under procedures established by the Board, to determine whether or not such entity has been operated in a manner consistent with this subtitle and in an otherwise lawful manner, except that the Board may waive the examination requirement for up to 1 additional year if, in its discretion, the Board determines that such a delay would be appropriate based on the prior operating experience of the entity, the contents and results of the last examination and the management expertise of the entity.

(c) Injunctions or Other Orders.—

(1) Grounds and jurisdiction of court.—Whenever, in the judgment of the Board an eligible entity has engaged or is about to engage in any acts or practices that constitute or will constitute a violation of any provision of this subtitle, or of any regulation

under this subtitle, or of any order issued under this section, the Board may apply to the proper district court of the United States or a United States court located in any jurisdiction subject to the laws of the United States, for an order enjoining such acts or practices, or for an order enforcing compliance with such provision, rule, regulation, or order. Such court shall have jurisdiction over such actions and, on a showing by the Board that such entity has engaged in or is about to engage in such acts or practices, may issue a permanent or temporary injunction, restraining order, or other order without bond.

(2) EQUITY JURISDICTION OF CORPORATION AND ASSETS.—In any proceeding under this section the court as a court of equity may, to such extent as it considers necessary, declare that such court has exclusive jurisdiction over the entity and the assets thereof, wherever located. Such court shall have jurisdiction in any such proceeding to appoint a trustee or receiver to hold or administer under the direction of the court the assets so possessed.

(3) TRUSTEESHIP OR RECEIVERSHIP.—The Board shall have authority to act as trustee or receiver of an entity under this section. On request by the Board, the court may appoint the Board to act in such

capacity unless the court determines such appointment to be inequitable or otherwise inappropriate because of the special circumstances involved.

(d) UNLAWFUL ACTS AND OMISSIONS BY OFFICERS, DIRECTORS, EMPLOYEES, OR AGENTS.—

(1) VIOLATION OF SUBTITLE.—Wherever an eligible entity violates any provision of this subtitle or regulation issued under such subtitle by reason of such entity failure to comply with the terms thereof, or by reason of such entity engaging in any act or practice that constitutes or will constitute a violation thereof, such violation shall be considered to be a violation and an unlawful act on the part of any individual who, directly or indirectly, authorizes, orders, participates in, or causes, brings about, counsels, aids, or abets in the commission of any acts, practices, or transactions that constitute or will constitute, in whole or in part, such violation.

(2) BREACH OF FIDUCIARY DUTY.—It shall be unlawful for any officer, director, employee, agent, or other participant in the management or conduct of the affairs of an eligible entity to engage in any act or practice, or to omit any act, in breach the fiduciary duty of such individual as such officer, director, employee, agent, or participant, if, as a result thereof, the

entity has suffered or is in imminent danger of suffering financial loss or other damage.

(3) DISQUALIFICATION OF OFFICERS AND EMPLOYEES.—Except on the written consent of the Board, it shall be unlawful—

(A) for any individual to take office as an officer, director, or employee of an eligible entity, or to become an agent or participate in the conduct of the affairs or management of an eligible entity, if—

(i) such individual has been convicted of a felony, or any other criminal offense involving dishonesty or breach of trust; or

(ii) such individual has been found civilly liable in damages, or has been permanently or temporarily enjoined by an order, judgment, or decree of a court of competent jurisdiction, by reason of any act or practice involving fraud or breach of trust; or

(B) for any individual to continue to serve in any of the above-described capacities, if—

(i) such individual is convicted of a felony, or any other criminal offense involving dishonesty or breach of trust; or

(ii) such individual is found civilly liable in damages, or is permanently or temporarily enjoined by an order, judgment, or decree of a court of competent jurisdiction, by reason of any act or practice involving fraud or breach of trust.

(e) PENALTIES AND FORFEITURES.—

(1) IN GENERAL.—Except as provided in paragraph (2), an eligible entity that violates any regulation or written directive issued by the Board requiring the filing of any regular or special report under this subtitle, shall forfeit and pay to the United States a civil penalty of not more than $100 for each and every day of the continuance of the corporation's failure to file such report, unless the entity demonstrates that such failure is due to reasonable cause and not due to willful neglect. The civil penalties provided for in this subsection shall accrue to the United States and may be recovered in a civil action brought by the Board.

(2) EXEMPTION.—The Board may through rules and regulations, or on application of an interested party, at any time previous to a failure under paragraph (1), by order, after notice and opportunity for hearing, exempt in whole or in part, any entity from the provisions of paragraph (1), on such terms and con-

ditions and for such period of time as the Board determines necessary and appropriate, if the Board finds that such action is not inconsistent with the public interest or the protection of the Board. The Board may for purposes of this subsection make any alternative requirements appropriate to the situation.

(f) JURISDICTION AND SERVICE OF PROCESS.—Any suit or action brought under this section by the Board to enforce any liability or duty created by, or to enjoin any violation of, this subtitle, or any rule, regulation, or order promulgated thereunder, shall be brought in the district wherein the eligible entity maintains its principal office, and process in such cases may be served in any district in which the defendant maintains its principal office or transacts business, or wherever the defendant may be found.

(g) SUBSTITUTION OF SECRETARY.—On the termination of the Board, the Secretary shall possess all the powers, privileges and rights regarding compliance and enforcement as described in this section.

Subtitle B—Rural Economic Development Promoted by the Rural Electrification Administration

SEC. 110. ASSISTANT ADMINISTRATOR FOR ECONOMIC DEVELOPMENT.

The Rural Electrification Act of 1936 is amended by adding after section 11 (7 U.S.C. 911) the following new section:

"SEC. 11A. ASSISTANT ADMINISTRATOR FOR ECONOMIC DEVELOPMENT.

"(a) APPOINTMENT.—The Administrator shall appoint an Assistant Administrator for Economic Development (hereinafter referred to in this Act as the 'Assistant Administrator') to carry out the programs of the Rural Electrification Administration concerning the involvement of rural electric and telephone systems in community and economic development.

"(b) APPOINTMENT FACTORS.—In appointing an Assistant Administrator, the Administrator shall consider the degree to which candidates possess—

"(1) knowledge of and experience in community and economic development programs and strategies;

"(2) the ability to develop and manage the specific programs and responsibilities of this office, as described in this Act;

"(3) the ability to work effectively with officials of Federal, State, and local governments, private, and other officials of development programs, as well as with borrowers of the Rural Electrification Administration and their associations; and

"(4) other factors as determined by the Administrator to be important in the successful execution of the responsibilities of the office of Assistant Administrator.

"(c) RESPONSIBILITIES AND STANDING.—The Assistant Administrator shall be—

"(1) responsible, unless otherwise provided by law, for the administration of the programs of the Rural Electrification Administration not directly related to the providing of electric or telephone service; and

"(2) at a salary level that is not less than that of the Assistant Administrator for Electric and the Assistant Administrator for Telephone of the Rural Electrification Administration.

"(d) FUNDING.—Not less than 10 percent nor more than 20 percent of the salaries and expenses provided to the Administration during any fiscal year shall be used by the Assistant Administrator in carrying out the responsibilities of the Assistant Administrator as described in subsection (c), and such amounts shall remain available until expended.".

SEC. 111. TECHNICAL ASSISTANCE UNIT.

Title I of the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.) is amended by adding at the end thereof the following new section:

"SEC. 17. TECHNICAL ASSISTANCE UNIT.

"The Administrator shall establish a technical assistance unit to provide advice and guidance to borrowers concerning community and economic development activities permitted under this Act. From the amounts made available to the Assistant Administrator under section 11A(d), not less than 2 percent of the salaries and expenses of the Rural Electrification Administration shall be made available to the technical assistance unit establishment in this section.".

SEC. 112. DEFERMENT OF PAYMENT ON ECONOMIC DEVELOPMENT LOANS.

Section 12 of the Rural Electrification Act of 1936 (7 U.S.C. 912) is amended by adding at the end thereof the following new subsection:

"(b) The Administrator shall permit any borrower to defer the payment of principal and interest on any insured or direct loan made under this Act, notwithstanding any limitation contained in section 12, if the borrower agrees—

"(1) except in cases of financial hardship (as determined by the Administrator), to defer its debt service payments only in an amount equal to an investment made by such borrower in community or economic development projects;

"(2) that the amount of the deferment that will be used to provide assistance to a community or economic development project under paragraph (1), will not exceed 50 percent of the cost of the project;

"(3) that—

"(A) in the case of deferments made to enable the borrower to provide financing to local businesses, the deferment shall be repaid over the 60-month period beginning on the date of the deferment; and

"(B) in the case of deferments made to enable the borrower to provide community development assistance, technical assistance to businesses, or similar community, business, or economic development assistance, the deferment shall be repaid over the 120-month period beginning on the date of the deferment; and

"(4) that at the time of deferment, such borrower shall make a cushion of credit payment in an amount equal to the amount of the payment deferred. Such payment may not be reduced by the borrower below the level of the unpaid balance of the payment deferred. Such cushion of credit amounts and any other cushion of credit and advance payments of any borrower shall be included in the interest differential calculation provided by section 313 of this Act.".

SEC. 113. WATER AND WASTE FACILITY FINANCING.

Title III of the Rural Electrification Act of 1936 is amended by adding after section 305 (7 U.S.C. 935) the following new section:

"SEC. 305A. WATER AND WASTE DISPOSAL SERVICES.

"(a) IN GENERAL.—The Administrator is authorized to make loans to borrowers under this title, in coordination and consultation with the Administrator of the Farmers Home Administration, to enable such borrowers to provide water and waste facility services in areas served by such borrowers.

"(b) LIMITATION.—Loans made under subsection (a) shall not, unless otherwise specified by law, exceed an amount equal to 10 percent of the total amount of insured loans authorized during the fiscal year in which such loan is made for rural electrification and telephone purposes, or $40,000,000, whichever is less. Such limitations shall be in addition to the total amount of insured loans authorized for electrification and telephone purposes.

"(c) PRIORITY—In reviewing applications for loans under this section the Administrator shall consider—

"(1) whether the Farmers Home Administration is able and willing to provide loans or grants on a timely basis for the water and waste facility projects contained in the application;

"(2) whether the loan is necessary to enable the applicant to comply with applicable Federal or State environmental laws;

"(3) whether the individuals residing in the area for which service is proposed, and any local government entities, are in favor of the borrower providing such services in the area;

"(4) the income, unemployment, and other characteristics of the area to be served;

"(5) the degree of deprivation faced by residents of the area to be served as a result of the lack of safe drinking water, adequate water supplies, sewage treatment and other waste disposal facilities;

"(6) the impact that the availability of safe water supplies, waste disposal and similar services would be likely to have on enhancing the prospects for economic growth within the area to be served;

"(7) the degree to which a loan that may be provided under this subsection is necessary to ensure that water and waste disposal services are available in the area to be served by such loan at costs that do not exceed those charged in other nearby areas;

"(8) the impact of the proposed loan on the retention of the property and service territory of the borrower, or in protecting the security given on outstanding loans provided to the borrower; and

"(9) whether the water and waste facility projects described in the application will duplicate any existing facilities, and whether the borrower will coordinate its water and waste facility operations with similar operations in the area, including efforts to achieve economies of scale through joint billing, collection or other operations with nearby systems in order to reduce the costs, improve the operations, or otherwise assist such systems.

"(d) COORDINATION.—

"(1) NOTIFICATION.—Not less than 30 days prior to approving a loan under this section, the Administrator shall notify the Administrators of the Farmers Home Administration and the Environmental Protection Administration, and the Chief Executive officer of the appropriate State, and the appropriate State health and environmental officials, that an application has been received from the borrower for funding under this section.

"(2) RELATIONSHIP.—The Administrator shall attempt to coordinate lending efforts with the entities described in paragraph (1).

"(e) TERMS.—

"(1) IN GENERAL.—Loans made under this section shall be for the same repayment period as insured loans made by the Administrator to such borrowers and interest rates on loans made under this section shall not exceed the standard interest rate charged on such insured loans.

"(2) INTEREST RATE.—The Administrator shall determine the interest rate to be charged on loans made under this section on the basis of—

"(A) ensuring that the cost to consumers for water and waste disposal services financed with loans provided under this section does not, to the extent possible, exceed rates charged in areas that are near the area served by the applicant;

"(B) the income and other characteristics of the individuals to be served through the provision of such loans; and

"(C) encouraging borrowers to obtain private sector capital, as provided for in subsection (f), to supplement loans made under this section.

"(f) PRIVATE SECTOR CAPITAL.—The Administrator shall require borrowers under this section to obtain private sector capital to supplement assistance made available under this section if—

"(1) the Administrator determines that—

"(A) it is appropriate to require use of such private capital, taking into account subparagraphs (A) and (B) of subsection (e)(2); and

"(B) the borrower is able to obtain revenues from the facilities to be financed to recover its cost, including the cost of such private capital; and

"(2) the borrower is able to obtain such private capital from the banks for cooperatives, the National Rural Utilities Cooperative Finance Corporation, the National Cooperative Bank, or from other sources.

In order to facilitate the obtaining of such private capital, the Administrator shall, on a case by case basis, reduce the interest rate on loans provided under this section when such reduction is required to enable the borrower to obtain such private capital, by amounts that do not exceed 50 percent of the total cost of the project for which such loans are provided under this section, and to meet the conditions of paragraph (1) of this subsection.

"(g) APPROPRIATIONS.—The Administrator is authorized to make loans as provided under this section, except that during any fiscal year the amount of such loans, unless otherwise provided by law, shall not exceed 10 percent of the amount authorized for all insured loans under this title, or $40,000,000, whichever amount is less. Funds appropriated under this section shall remain available until expended.

"(h) REPAYMENT.—Appropriations made for purposes of this section shall be placed in a subaccount of the Rural Electrification and Telephone Revolving Fund. Advances on loans made under this section shall be made from such subaccount, and payments on such loans shall be returned to the subaccount for use by the subaccount in making advances on future loans.

"(i) FULL USE.—The Administrator shall undertake all reasonable efforts to make full use, during each fiscal year, of any funds held by the subaccount established under subsection (h), subject to limitations that loans for the purpose of this section shall not exceed 10 percent of the amount of loans made under this title during any fiscal year, or $40,000,000, whichever amount is less, and subject to any other limitations that may be imposed by law, except that any repayments made during each fiscal year shall not be considered in computing such 10 percent or $40,000,000 limit.".

SEC. 114. TARGETING INVESTMENTS BY ELECTRIFICATION BORROWERS.

Section 312 of the Rural Electrification Act of 1936 (7 U.S.C. 940b) is amended—

(1) by inserting "(a) IN GENERAL.—" before "A borrower"; and

(2) by adding at the end thereof the following new subsection:

"(b) TARGETING INVESTMENTS.—Amounts intended to be invested by a borrower under subsection (a) shall be invested in—

"(1) the Incubation Fund established under section 502 or other business incubators;

"(2) new businesses, business development centers, community development corporations, business investment corporations, business, medical or education related telecommunications or infrastructure improvements, or any related activities including technical assistance programs in rural areas; or

"(3) other community, business or economic development projects or investments.".

SEC. 115. RURAL ECONOMIC DEVELOPMENT.

The Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.) is amended by adding at the end thereof the following new title:

“TITLE V—RURAL ECONOMIC DEVELOPMENT

“SEC. 501. ADDITIONAL POWERS AND DUTIES OF REA ADMINISTRATOR.

“The Administrator of the Rural Electrification Administration shall—

“(1) provide advice and guidance to electric and telephone borrowers under this Act concerning the effective and prudent use by such borrowers of the investment authority under section 312 to promote rural development;

“(2) provide technical advice, troubleshooting, and guidance concerning the operation of programs or systems that receive assistance under this Act;

“(3) establish and administer various pilot projects through electric and telephone borrowers that the Administrator determines are useful or necessary, and recommend specific rural development projects for rural areas;

“(4) act as an information clearinghouse and conduit to provide information to electric and telephone borrowers under this Act concerning useful and effective rural development efforts that such borrowers may wish to apply in their areas of operation and concerning State, regional, or local plans for long-term rural economic development;

"(5) provide information to electric and telephone borrowers under this Act concerning the eligibility of such borrowers to apply for financial assistance, loans, or grants from other Federal agencies and non-Federal sources to enable such borrowers to expand their rural development efforts;

"(6) promote local partnerships and other coordination between borrowers under this Act and community organizations, States, counties, or other entities, to improve rural development;

"(7) review the advice and recommendations of the Rural Educational Opportunities Board as established under section 601(f); and

"(8) administer a Rural Business Incubation Fund (as established under section 502) that shall provide technical assistance, advice, loans, or capital to business incubation programs or for the creation or operation of small business incubators in rural areas.

"SEC. 502. RURAL BUSINESS INCUBATION FUND.

"(a) ESTABLISHMENT AND USE.—

"(1) ESTABLISHMENT.—There is established in the Treasury of the United States a revolving fund to be known as the Rural Business Incubation Fund (hereinafter referred to in this title as the 'Incubation Fund') to be administered by the Administrator.

"(2) USE.—The Incubation Fund shall be used to make grants and reduced interest loans to electric and telephone borrowers under this Act to promote business incubation programs or for the creation or operation of business incubators in rural areas by such borrowers, and the rate of such loans shall not exceed the standard rate as provided in section 305.

"(3) BUSINESS INCUBATION.—Business incubators that receive assistance under this title shall be a facility in which small businesses can share premises, support staff, computers, software or hardware, telecommunications terminal equipment, machinery, janitorial services, utilities, or other overhead expenses, and where such businesses can receive technical assistance, financial advice, business planning services or other support. Business incubation programs that provide assistance of the type described in this paragraph shall be eligible for assistance under this title even where such program does not involve the sharing of premises.

"(b) APPLICATION FOR ASSISTANCE—

"(1) ELIGIBILITY TO SUBMIT.—Borrowers under this Act that operate existing business incubators or that desire to operate such incubators or business incubation programs, and that meet the requirements established by the Administrator for obtaining grants or reduced interest loans under this section, may submit applications at such time, in such form, and containing such information as the Administrator shall require, for such grants or loans.

"(2) REQUIREMENTS.—Applications submitted under paragraph (1) shall, at a minimum—

"(A) contain an assurance that any incubator established or operated to this section will be operated on a not-for-profit basis; and

"(B) contain an assurance that it will be the policy of such incubator to encourage and assist businesses in graduating from the incubator and becoming a viable business entity in the community and to inform participating businesses of this policy;

"(3) REVIEW.—In reviewing applications for assistance, the Administrator shall consider—

"(A) how effectively the incubation project will assist in the formation, growth, or improved efficiency of small businesses that will help diversify and develop the local economy; and

"(B) the amount of local support likely to exist for the incubator and the businesses to be assisted by such incubator, taking into account local contributions of business, financial, technical, technological or managerial expertise, and contributions of equipment or materials, local financial assistance, and other factors as determined appropriate by the Administrator.

"(c) FUNDING OF LOCAL INCUBATORS.—

"(1) BY BUSINESSES UTILIZING INCUBATOR.—

"(A) IN GENERAL.—Business incubators that receive assistance under this section shall, to the extent practicable and except as provided by the Administrator, require that each business entity that utilizes such incubator share, on a percentage or other basis, as determined by the Administrator, a portion of the benefit of any growth in profits, net worth, or other measure of income or growth that results during or because of such entity's entry into the incubator.

"(B) CONTRIBUTION TO INCUBATOR FUND.—At such time as the business incubator receives revenues from the business entity as provided under subparagraph (A), such incubator shall pay an amount equal to 50 percent of such revenue to the Incubator Fund established under subsection (a).

"(C) FLEXIBILITY.—In administering the requirement of this paragraph, the Administrator shall provide substantial flexibility and assistance to incubators in order to ensure that a proper balance is achieved between—

"(i) the objective that a business that benefits from an incubator should return a small portion of such benefit to the incubator for use in assisting other businesses and to the Incubator Fund established under subsection (a); and

"(ii) the requirement that such payments by a business not impose an undue burden nor interfere with the purposes of this section.

"(2) BY BORROWER ESTABLISHING INCUBATOR.—

"(A) IN GENERAL.—A borrower that establishes or assists a business incubator under this section shall purchase Capital Term Certificates issued by the Incubator Fund in amounts equal to 10 percent of the amount of the grant, or 5 percent of the amount of the reduced interest loan, provided by the Administrator under this section.

"(B) REDEMPTION OF CERTIFICATES.—Each calendar year for the 10-year period beginning on the date that a grant or reduced interest loan is provided under this section, the Administrator shall redeem an amount equal to 10 percent of the Capital Term Certificates purchased by the borrower under subparagraph (A), without any payment of interest.

"(3) BY THE SECRETARY OF THE TREASURY—

"(A) IN GENERAL.—Not later than October 1, of each fiscal year, the Secretary of the Treasury shall purchase Capital Term Certificates issued by the Incubator Fund in the amount of $10,000,000.

"(B) TERMINATION OF OBLIGATION.—The Secretary of the Treasury shall not be obligated to make any payments under subparagraph (A) to the Incubator Fund after October 1, 1995.

"(C) REDEMPTION OF CERTIFICATES.—Each calendar year for the 10-year period beginning on January 1, 2000, the Administrator shall redeem an amount equal to 10 percent of the Capital Term Certificates purchased by the Secretary under subparagraph (A), without any payment of interest.

"(d) REPAYMENTS TO INCUBATION FUND.—All payments made on loans under this section, and all amounts provided under subsection (c), shall be placed in the Incubator Fund established by subsection (a) and shall be available to carry out the purposes of this section.

"(e) FULL USE.—The Administrator shall undertake all reasonable efforts to make full use, during each fiscal year, of any funds contained in the Incubator Fund established under subsection (a), consistent with the requirement that the Incubator Fund redeem Capital Term Certificates as provided by subsection (c).".

SEC. 116. PROMOTING RURAL DEVELOPMENT BY REA TELEPHONE BORROWERS.

To promote additional rural development by Rural Electrification Administration telephone borrowers, amounts invested by any such borrower for rural telecommunications or other rural development purposes shall not be considered dividends or distribution of capital by the Rural Electrification Administration.

TITLE II—ENHANCING HUMAN RESOURCES

SEC. 201. RURAL STAR SCHOOLS EDUCATIONAL OPPORTUNITIES PROGRAM.

The Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.) (as amended by section 116) is further amended by adding at the end thereof the following new title:

"TITLE VI—RURAL EDUCATIONAL OPPORTUNITIES

"SEC. 601. RURAL EDUCATIONAL OPPORTUNITIES PROGRAM.

"(a) PURPOSE.—

"(1) IN GENERAL.—It is the purpose of the program established under this section to encourage and improve the use of telecommunications, computers, and related advanced technologies, to provide electronic or telecommunications access by students and faculty at grade schools, high schools, (including vocational education schools, and adult education centers) in rural areas in order to improve educational instruction in the areas of mathematics, the sciences, computer technology, foreign languages, health sciences, and other areas of study.

"(2) GRANTS.—The program established under this section shall make grants available to telecommunications partnerships to develop and acquire, through lease or purchase, instructional programming, computer hardware and software, telecommunications facilities, telecommunications terminal equipment, audio and visual equipment, monitors and related devices, interactive video equipment, and other facilities and to obtain technical assistance for the development or use of such facilities and programming.

"(b) GRANTS.—

"(1) GENERAL AUTHORIZATION.—The Administrator of the Rural Electrification Administration (hereinafter referred to in this section as the 'Administrator') is authorized to make grants to accomplish the purposes of the program established under this section in an amount not to exceed $10,000,000 in fiscal year 1990, $15,000,000 in fiscal year 1991, and $25,000,000 in each of the fiscal years 1992 through 1994.

"(2) DISBURSEMENT.—In order to facilitate appropriate planning for, and continuity of the program established under this section, funds appropriated by the Congress during a particular year may be committed by the Administrator for disbursement in a subsequent year or years, and funds appropriated and committed during a year may exceed the limitations described in paragraph (1). Funds appropriated pursuant to this section shall remain available until expended.

"(3) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out the provisions of this title, $10,000,000 in fiscal year 1990, $15,000,000 in fiscal year 1991, and $25,000,000 in each of the fiscal years 1992 through 1994. Amounts appropriated under this subsection shall remain available until expended.

"(4) USE OF FUNDS.—

"(A) PARTNERSHIPS.—Grants under this section may be made available to partnerships organized pursuant to subsection (c) to be used by such partnerships for facilities, equipment, activities, and other uses to achieve the purpose of this section, including—

"(i) the development and acquisition of instructional programming;

"(ii) the development and acquisition, through lease or purchase, of hardware and software, audio and visual equipment, telecommunications terminal equipment, telecommunications equipment or facilities, or interactive video equipment, and other facilities that would further the purposes of the programs authorized by this section;

"(iii) providing technical assistance and instruction for the development ,or use of such programming or facilities; or

"(iv) other uses that are consistent with achieving the purposes of this section.

"(B) RURAL EDUCATIONAL OPPORTUNITIES BOARD.—During each fiscal year 3 percent of the funds appropriated under this section to carry out this program shall be available to the Rural Educational Opportunities Board established under subsection (f).

"(5) LIMITATIONS.—

"(A) INSTRUCTIONAL PROGRAMMING.—Not less than 25 percent of the funds appropriated under this section in any fiscal year shall be used to fund instructional programming, including programming to assist elementary and secondary schools, and adult and vocational education and training centers.

"(B) FEDERAL SHARE.—Any partnership desiring to obtain a grant under this section shall demonstrate an effort to limit the Federal share to 75 percent or less of the total cost of the project for which funding is requested. The partnership should also work with Rural Electrification Administration borrowers, other telecommunications entities and the local community in seeking donations of equipment or other hardware to local schools. Such contributions and other in-kind assistance shall be considered a portion of the non-Federal share.

"(C) WAIVER.—The limitation described in this paragraph may be waived by the Administrator based on a finding that such a waiver would facilitate the achievement of the purposes of this section, considering the specific circumstances of a project for which funding is requested, financial hardship in the area to be served, and based on other factors determined to be appropriate by the Secretary.

"(D) TELECOMMUNICATIONS FACILITIES.—

"(i) IN GENERAL.—No funds shall be made available under this section for telecommunications facilities, including fiber-optics, satellite and other facilities, to be used to receive or transmit into or out of a building, school or other facility if—

"(I) not later than 45 days after receiving a request from a partnership organized under this section—

"(aa) a local exchange carrier providing telephone service as defined in section 203(a) shall agree to provide such partnership with access to such telecommunications facilities or services as requested by the partnership for the distance learning program that is being proposed; and

"(bb) the Administrator shall agree that the cost, if any, to be charged by such local exchange carrier shall not place an undue burden on the partnership or interfere with the purpose of this section;

"(II) not later than 150 days after receiving a request as described in subclause (I), the local exchange carrier shall have provided such access to telecommunications facilities and services as described in such subclause or have taken substantial steps, as determined by the Administrator, toward providing such access; and

"(III) not later than 250 days after receiving a request as described in subclause (I), the project to provide the access referred to in subclause (I)(aa) is completed.

"(ii) EXCEPTIONS.—This subparagraph shall not apply to telecommunications terminal equipment, interactive video equipment and other hardware and software not directly required to receive or transmit into or out of a building or other facility.

"(c) RURAL EDUCATIONAL OPPORTUNITIES PARTNERSHIPS.—

"(1) IN GENERAL.—Grants made under this section shall be available to telecommunications partnerships that consist of—

"(A) Rural Electrification Administration borrowers, telecommunications corporations, or other entities that participate individually or jointly on a multicounty, regional, Statewide, or multiState basis;

"(B) an entity selected by the Rural Educational Opportunities Board which shall be a national organization (such as the National Rural Telecommunications Cooperative) that—

"(i) is organized by consumer owned electric and telephone systems who are eligible to participate in partnerships organized under this section;

"(ii) has been or will be engaged in activities designed to provide modern telecommunications and programming to individuals in rural areas who have been previously without such services; and

"(iii) on the basis of its membership and experience will, as determined by the Rural Educational Opportunities Board, serve as a central catalyst and organizer to bring distance learning programming and services under this section to individuals in rural areas, and ensure that any programming, facilities and other equipment and technical assistance financed under this section will be made available to the broadest extent possible; and

"(C) one or more educational institutions, agencies, or organizations with substantial academic and teaching capabilities, such as local education agencies, State education agencies, land grant and other universities, community colleges, and other institutions of higher education.

"(2) OTHER ORGANIZATIONS.—Other organizations may be included in the rural distance learning partnerships in order to improve the quality of programming delivered, or to increase the level of participation by rural schools, vocational or adult learning centers, health care or other organization with access to rural populations and small communities that can benefit from this program.

"(d) APPLICATION FOR GRANTS.—An application for a grant under this section shall be made to the Administrator and shall provide the following documentation:

"(1) Evidence that the application is submitted by a partnership that meets the requirements under subsection (c).

"(2) A detailed description of the rural distance learning project and the facilities and equipment for which the grant is sought.

"(3) A statement of the Federal and non-Federal shares of funding for the proposed rural distance learning project, and evidence that the partnership has worked with or will work with, Rural Electrification Administration borrowers, or other telecommunication entities, in seeking the assistance of such borrowers or entities in donating telecommunications equipment or other hardware.

"(4) A description of the rural elementary or secondary schools, or adult educational program that will participate in the rural distance learning project, including a description of—

"(A) the numbers of students that likely would benefit from each project;

"(B) the need for the project taking into consideration other alternatives;

"(C) the number of teachers and other instructors to be involved, and the subject matters covered by the project; and

"(D) the relative educational need in such area for the program;

"(5) A description of the types of instructional and other programming that will be developed or acquired as part of the rural distance learning program, and the rationale for developing or acquiring this programming.

"(6) A description, based on a survey and analysis of the area to be served, of how the project will substantially increase the educational programs provided by participating schools and the availability of instructional assistance regarding courses of instruction in mathematics, the sciences, foreign languages, computer sciences, vocational and adult training and education, health sciences and other areas of study.

"(7) A description of the teacher training policies that will be implemented to achieve the effective use of the telecommunications facilities or equipment, terminal equipment, computers, hardware and software, audio and visual equipment and monitors, interactive video equipment, and other facilities and programming for which assistance is sought.

"(8) A description of the manner in which needy or traditionally underserved students will participate in the benefits of the grants made under this section.

"(9) Assurances that the partnership will encourage participation and involvement by elementary and secondary schools, and, if applicable, other educational institutions, such as institutions of higher education, county extension services, vocational and adult training and education centers, teacher training centers, research institutes, and private industry, in order to ensure that the facilities, equipment, technical assistance, and programming for which assistance is sought will be made available to the broadest extent practical.

"(10) Assurances that the facilities, equipment, technical assistance, and programming for which assistance is sought will be made available to the broadest extent practical.

"(11) Assurances that, to the extent practical, educational programming developed or acquired by the applicant with funds provided under this section, will be made available to as many rural communities throughout the United States as practical.

"(12) Such additional assurances and reporting requirements as the Administrator may reasonably require.

"(e) INFORMATIONAL EFFORTS.—The Administrator shall establish and implement procedures to carry out informational efforts to advise elementary, secondary, and postsecondary schools and other eligible applicants located in rural areas of each State, about the program authorized by this section.

"(f) RURAL EDUCATIONAL OPPORTUNITIES BOARD.—

"(1) ESTABLISHMENT.—There shall be established an advisory board to be known as the Rural Educational Opportunities Board (hereinafter referred to in this section as the 'Board') to provide advice and guidance to grant recipients under this title.

"(2) COMPOSITION.—The Board shall be comprised of—

"(A) two individuals appointed by the Secretary of Education who are either—

"(i) a rural teacher;

"(ii) a rural principal;

"(iii) a State superintendent of education;

"(iv) a rural librarian;

"(v) a State director of the Educational Broadcasting System;

"(vi) an educational telecommunications expert;

"(vii) a state director of vocational education;

"(viii) a Director or Administrator of the State Cooperative Extension Service;

"(ix) a specialist in learning strategies for elementary education;

"(x) a specialist in learning strategies for secondary education;

"(xi) a specialist in learning strategies for adult education;

"(xii) a curriculum specialist;

"(xiii) a specialist in English as a second language; or

"(xiv) a specialist in learning disabilities or special education;

"(B) two individuals appointed by the Secretary of Agriculture who meet the requirements of subparagraph (A);

"(C) the Secretary of Education;

"(D) the Administrator of the Rural Electrification Administration;

"(E) one individual elected by Rural Electrification Administration borrowers under title I and one individual elected by Rural Electrification Administration borrowers under title II; and

"(F) one individual, who shall be a telecommunications specialist, to be appointed by the Secretary of Agriculture in consultation with telecommunication corporations which are not borrowers of the Rural Electrification Administration.

"(3) TERM OF OFFICE.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), the term of office of each appointed or elected member of the Board shall be 3 years.

"(B) EXCEPTION.—The initial members of the Board who are appointed by the Secretary of Education and the Secretary of Agriculture under subparagraphs (A) and (B) of paragraph (2) shall serve a term determined by such Secretaries, except that—

"(i) one-half of such members shall serve for terms of 2 years; and

"(ii) one-half of such members shall serve for terms of 3 years.

"(4) VACANCY.—Any member appointed to fill a vacancy on the Board shall serve for the remainder of the term for which the predecessor of such member was appointed.

"(5) NUMBER OF TERMS.—No member appointed or elected to the Board may serve more than 2 consecutive terms.

"(6) RESPONSIBILITIES.—The Board shall, on an ongoing basis—

"(A) provide advice and guidance to grant recipients under this title;

"(B) evaluate the quality and effectiveness of rural distance learning programs, and the instructional and other material made available under such programs;

"(C) evaluate the degree of participation of educational institutions in the program authorized by this title, and the extent to which new educational opportunities have been or will be made available to as many rural and small communities in the United States as possible;

"(D) evaluate the technology, hardware and software, the telecommunications terminal equipment, interactive video equipment, audio and visual devices, and other facilities proposed or employed by grant recipients in order to determine its effectiveness in achieving the purposes of this section;

"(E) recommend changes in any elements of any program in order to improve the effectiveness of any program receiving funds under this section; and

"(F) consult with the Secretary of Education, and the Administrator of the Rural Electrification Administration regarding the dissemination of information concerning the program established under this section and the coordination of similar programs.

"(7) Resources.—The Board may request information and staff assistance from the Administrator of the Rural Electrification Administration and the Secretary of Education who may provide such assistance. The Board shall have available not more than 3 percent of the funds appropriated each year to make grants under this section to be used for—

"(A) reasonable travel, lodging, and other direct out-of-pocket expenses of Board members in attending meetings of the Board, and for other needed purposes; and

"(B) studies, evaluations, and other information needed by the Board to fulfill its responsibilities under this section, and which cannot reasonably be made available by the Administrator or the Secretary of Education, or which the Board determines is sufficiently beneficial to justify obtaining from an independent source.

"(8) CHAIRPERSON.—The Board shall elect a Chairperson and such other officers as the Board determines are necessary, and shall establish operational rules, policies, and guidelines to govern its activities.

"(g) REVIEW AND APPROVAL OF GRANT APPLICATIONS.—

"(1) BOARD REVIEW.—The Board shall review each grant application and provide the Administrator with the recommendations of the Board concerning such application.

"(2) ADMINISTRATOR.—The Administrator shall review each grant application and the recommendations of the Board concerning such, and not later than 120 days after the receipt of such application, determine whether to approve the application, and if so, the amount of funding to be provided to the applicant.

"(h) PROGRAM EVALUATION.—

"(1) ANNUAL REPORT.—Not later than 1 year after the date of enactment of this section, and each year thereafter, the Administrator, in consultation with the Secretary of Education, shall prepare and submit, to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate, a report on the program established under this section.

"(2) CONTENTS.—The report submitted under subparagraph (A) shall include—

"(A) a full description of the projects that have received funds under this section;

"(B) a description of the number of schools, students and others who have participated in such projects;

"(C) the specific instructional programming that has been developed under the program established under this section;

"(D) an evaluation of the achievements and failures of the program; and

"(E) the long range plans to further develop the program.

"(i) EXPEDITING COORDINATED REA TELEPHONE LOANS.—The Administrator shall establish and implement procedures to assure that requests for loans and advances of funds to local exchange carriers providing telephone service as defined in section 203(a), in rural areas, as defined in the Rural Partnerships Act of 1989, to provide telephone services associated with grants under this section, receive expedited consideration and determination as compared to requests for loans and advances for other telephone purposes.".

SEC. 202. RURAL MEDICAL LINK TELECOMMUNICATIONS PROGRAM.

(a) PURPOSE.—It is the purpose of this section to establish a program to improve telecommunications and related activities between and among rural hospitals, physicians, teaching hospitals, rural primary care centers or facilities, and major medical hospitals through grants and expedited Rural Electrification Administration telephone loans.

(b) ESTABLISHMENT OF PROGRAM.—

(1) IN GENERAL.—The Secretary shall establish a program, to be administered by the Administrator of the Rural Electrification Administration (hereinafter referred to in this section as the "Administrator"), to make grants available to hospitals, primary care centers or physicians, approved by the Administrator to participate in the program established under this section, that are located in rural areas to enable such approved hospitals, centers or physicians to acquire or lease telecommunications facilities or equipment, subject to the limitations of paragraph (4), and telecommunications terminal and other necessary equipment, that will provide such hospitals, centers and physicians with the ability to communicate with teaching hospitals or medical centers to improve health care in rural areas. Grants may also be made to local exchange carriers providing telephone service, as defined in section 203(a) of the Rural Electrification Act of 1936 (7 U.S.C. 924(a)), and to telecommunications facilities if such facilities are required to achieve the purpose of this section.

(2) USE.—Telecommunications equipment or facilities acquired under a grant awarded under paragraph (1) shall be used to improve on-line computer operations and the transmission of medical data, diag-

nostic information, radiographic, x-ray, ultrasonic or computerized tomographic images, representations of the results of any other medical scanning or diagnostic testing such as echocardiograms, cineangiograms, real-time scanning, electrocardiograms, electroencephalographs, or to facilitate communications among entities described in subsection (a), in order to improve the diagnosis or treatment of any diseases, disorders, abnormalities or medical conditions.

(3) EXPEDITING OF COORDINATED REA TELEPHONE LOANS.—The Administrator shall establish and implement procedures to assure that requests for loans and advances of funds to local exchange carriers providing telephone service as defined in section 203(a) of the Rural Electrification Act of 1936 (7 U.S.C. 924(a)) in rural areas, as defined in this Act, to provide telephone services associated with grants under this section, receive expedited consideration and determination as compared to requests for loans and advances of funds for other telephone purposes.

(4) TELECOMMUNICATIONS FACILITIES.—

(A) IN GENERAL.—No funds shall be made available under this section for telecommunications facilities, including fiber-optic lines, satellite and other facilities, to be used to receive or transmit into or out of an approved hospital, primary care center or physician's office, located in a rural area, if—

(i) not later than 45 days after receiving a request from such hospital, center or physician under this section—

(I) a local exchange carrier providing telephone service as defined in section 203(a) of the Rural Electrification Act of 1936 (7 U.S.C. 924(a)) shall agree to provide such hospital, center or physician with access to such telecommunications facilities or services as requested by such hospital, center or physician for the telecommunications project that is being proposed; and

(II) the Administrator shall agree that the cost, if any, to be charged by such local exchange carrier shall not place an undue burden on the hospital, center or physician or interfere with the purpose of this section;

(ii) not later than 150 days after receiving a request as described in clause (i), the local exchange carrier shall have provided such access to telecommunications facilities and services as described in such clause or have taken substantial steps toward providing such access; and

(iii) not later than 250 days after receiving a request as described in clause (i), the project to provide the access referred to in clause (ii) is completed.

(B) EXCEPTIONS.—This paragraph shall not apply to telecommunications terminal equipment, interactive video equipment and other hardware and software not directly required to receive or transmit into or out of a building or other facility.

(b) REGULATIONS.—Not later than April 15, 1990, the Administrator shall promulgate such regulations as are necessary and appropriate to carry out the provisions of this section, including establishing a priority system for awarding grants to hospitals, primary care centers and physicians located in rural areas that are most in need of enhanced communications to carry out the purposes of this section.

(c) INFORMATIONAL EFFORTS.—The Administrator shall establish and implement procedures to carry out informational efforts to advise hospitals, primary care centers and physicians located in rural areas of each State, concerning the program authorized by this section, and of the application procedures and deadlines.

(d) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to carry out this section, $15,000,000 in each of the fiscal years 1990 through 1994. Amounts appropriated under this subsection shall remain available until expended.

SEC. 203. RURAL BUSINESS LINK TELECOMMUNICATIONS PROGRAM.

(a) PURPOSE.—It is the purpose of this section to establish a program to improve the transmission of marketing, product ordering, inventory management, or other related business data and information through telecommunications and computer technology between businesses located in rural areas and other businesses or facilities.

(b) ESTABLISHMENT OF PROGRAM.—

(1) IN GENERAL.—The Secretary shall establish a program, to be administered by the Administrator of the Rural Electrification Administration (hereinafter referred to in this section as the "Administrator") to make grants available, as determined appropriate and approved by the Administrator, to assist rural businesses through the establishment of shared business communications or computer centers that will serve small businesses or individuals who are starting a small busi-

ness by providing or making available to such businesses advanced telecommunications facilities or equipment (subject to the limitation in paragraph (2)), and computer services or equipment and telecommunications terminal equipment at charges that confer the benefit of the reduced costs of providing such services or equipment on such businesses.

(2) TELECOMMUNICATIONS FACILITIES.—

(A) IN GENERAL.—No funds shall be made available under this section for telecommunications facilities, including fiber-optic lines, satellite and other facilities, to be used to receive or transmit into or out of the business communications or computer center if—

(i) not later than 45 days after receiving a request from a business, approved by the Administrator to participate in the program established under this section, that desires to establish a communications or computer center, or from such a center approved by the Administrator to participate in the program established under this section, a local exchange carrier providing telephone service as defined in section 203(a) of the Rural Electrification Act of 1936 (7 U.S.C. 924(a)) shall agree to provide such business or center with access to such telecommunications facilities or services as requested by such business or center, and approved by the Administrator, for the telecommunications project that is being proposed; and

(ii) not later than 150 days after receiving a request as described in clause (i), the local exchange carrier shall have provided such access to telecommunications facilities and services as described in such clause or have taken substantial steps toward providing such access; and

(iii) not later than 250 days after receiving a request as described in clause (i), the project to provide the access referred to in clause (ii) is completed.

(B) EXCEPTIONS.—This paragraph shall not apply to telecommunications terminal equipment, interactive video equipment and other hardware and software not directly required to receive or transmit into or out of a building or other facility.

(c) EXPEDITING COORDINATED REA TELEPHONE LOANS.—The Administrator shall establish and implement procedures to assure that loans and advance of funds to local exchange carriers providing telephone service as defined in section 203(a) of the Rural Electrification Act of 1936 (7 U.S.C. 924(a)) in rural areas, as defined in this Act, to provide telephone services associated with grants under this section, receive expedited consideration and determination as compared to requests for loans and advances of funds for other telephone purposes.

(d) INFORMATIONAL EFFORTS.—The Administrator shall establish and implement procedures to carry out informational efforts to advise businesses located in rural areas concerning the program authorized by this section.

(e) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to carry out this section, $10,000,000 in each of the fiscal years 1990 through 1994. Amounts appropriated under this subsection shall remain available until expanded.

TITLE III—FOCUS ON RURAL AMERICA BY THE DEPARTMENT OF AGRICULTURE

SEC. 301. EXTENSION SERVICE.

Section 502 of the Rural Development Act of 1972 (7 U.S.C. 2662) is amended by adding at the end thereof the following new subsection:

"(g) RURAL ECONOMIC AND BUSINESS DEVELOPMENT.—

"(1) IN GENERAL.—The Secretary shall establish an Extension Service rural economic and business development program to enable States or counties to employ specialists as Cooperative Extension Service staff of the State or county to assist individuals in creating new businesses, or to assist existing businesses, and to assist such businesses regarding advanced telecommunications, computer technologies, technical or management assistance, business and financial planning, and other related matters, and to assist community leaders in community economic analysis and strategic planning.

"(2) FUNCTION OF SPECIALISTS.—Specialists employed under paragraph (1) shall provide economic development information and assistance concerning new business creation, business planning and advice, advanced telecommunications, business management, computer operations, and other technical assistance to community leaders and private sector entrepreneurs operating in the State or county that employs such specialist.

"(3) PROCEDURES AND LIMITATIONS.—The Secretary shall establish policies, procedures and limitations that shall apply to States and counties that desire to participate in the program established under this subsection. States and counties shall determine the types of rural economic and business development specialists that are needed by such States and counties.

"(4) PAYMENT OF SALARY.—The Secretary shall make grants to States and counties that participate in the program established under this section in an amount equal to 60 percent of the total amount of the salary paid to any specialists employed under such program, and the State or county shall provide funds for the remaining 40 percent of such salary.

"(5) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $5,000,000 in fiscal year 1990, $10,000,000 in fiscal year 1991, $15,000,000 in fiscal year 1992, and $20,000,000 in fiscal year 1993 and each subsequent fiscal year, to carry out this section. Amounts appropriated under this section shall remain available until expended".

SEC. 302. RURAL DEVELOPMENT ASSISTANCE INFORMATION AND AVAILABILITY.

The Rural Development Act of 1972 (7 U.S.C. 2651 et seq.) is amended by adding at the end thereof the following new sections:

"SEC. 509. NEED AND AVAILABILITY OF RURAL DEVELOPMENT ASSISTANCE.

"(a) ESTABLISHMENT OF PROGRAM.—Not later than 180 days after the date of enactment of this section, the Secretary shall establish a program to study economically distressed counties in a variety of States that have high concentrations of nonmetropolitan counties with low per capita income.

"(b) EVALUATION.—When conducting a study of counties under subsection (a), the Secretary shall evaluate the need of such counties for rural development assistance, the nature of the assistance needed, and the availability of such assistance.

"(c) REPORT.—Not later than September 30, of each of the fiscal years 1990 through 1993, the Secretary shall prepare and submit, to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate, a report that contains the results of the studies and evaluations conducted under this section and on any action taken by the Secretary to improve economic conditions in rural counties.

"(d) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated such sums as may be necessary to carry out this section.

"SEC. 510. RURAL DEVELOPMENT ASSISTANCE INFORMATION.

"(a) ESTABLISHMENT OF PROGRAM.—The Secretary shall establish a program, to be operated in conjunction with the National Rural Information Center Clearinghouse established within the National Agricultural Library, to provide information to local rural communities, nonmetropolitan counties, and rural areas concerning rural development matters and the availability of Federal rural development assistance.

"(b) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated such sums as may be necessary to carry out this section.".

SEC. 303. REPORT ON COORDINATION OF RURAL DEVELOPMENT ACTIVITIES.

Not later than September 1, 1989, the Secretary shall prepare and submit, to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate, a report that contains the recommendations of the Secretary concerning better coordination of the rural development activities of the Farmers Home Administration, the Forest Service, the Soil Conservation Service, the Agricultural Research Service, the Agricultural Stabilization and Conservation Service, the Rural Electrification Administration, the Extension Service and the Office of Transportation.

SEC. 304. REPORT ON DATA PROCESSING FEASIBILITY IN RURAL AREAS.

(a) Study.—Not later than 90 days after the date of enactment of this Act, the Secretary shall conduct a study that—

(1) assesses the data processing functions administered by the Secretary;

(2) analyzes whether or not the current data processing functions of the Department of Agriculture, and the future processing functions, may be conducted in rural areas at similar or reduced costs; and

(3) assesses any other information that the Secretary determines appropriate to analyze the potential for locating current and expanded data processing jobs in rural areas.

(b) Report.—Not later than 270 days after the date of enactment of this Act, the Secretary shall prepare and submit, to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate, a report that contains the results of the study conducted under subsection (a).

(c) Authorization of Appropriations.—There are authorized to be appropriated to carry out this section $250,000.

TITLE IV—RURAL BUSINESS AND EMPLOYMENT ASSISTANCE

SEC. 401. LOCAL TECHNICAL ASSISTANCE GRANTS.

(a) IN GENERAL.—The Secretary shall make grants to States, counties, towns, regional organizations, and other public bodies, nonprofit private community development corporations, or other like entities for the purposes described in subsection (b).

(b) USE OF GRANTS.—

(1) IN GENERAL.—Grants made under this section shall be used—

(A) to identify and analyze business opportunities, including opportunities in export markets, that will use local rural economic and human resources;

(B) to identify, train, and provide technical assistance to existing or prospective rural entrepreneurs and managers;

(C) to establish business support centers and otherwise assist in the creation of new rural businesses, the development of methods of financing local businesses, and enhancing the capacity of local individuals and entities to engage in sound economic activities; and

(D) for regional, community, and local economic development planning and coordination.

(2) RESTRICTION ON USE.—Funds appropriated under this section may not be used for—

(A) political activities; or

(B) any activities, the effect of which is to relocate existing jobs and businesses.

(c) ELIGIBLE PROJECTS.—Grants may be made under this section only for a project intended to benefit a rural area.

(d) APPLICATION.—To receive a grant under this section an entity of the type described in subsection (a) shall submit an application to the Secretary at such time, in such form, and containing such information as the Secretary may require.

(e) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out this section $7,500,000 for each fiscal year.

SEC. 402. PROVIDING ASSISTANCE THROUGH LOCAL GOVERNMENTS AND NONPROFIT PRIVATE CORPORATIONS.

Section 306(a)(11) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926(a)(11)) is amended—

(1) by inserting after "may select" the following: ", or to private nonprofit development corporations approved by the Secretary,"; and

(2) by adding at the end thereof the following new sentence: "To the extent that private nonprofit development corporations receive grants under this paragraph, such corporations shall coordinate their efforts to provide services or assistance with such grants with local, regional, and State governments as appropriate.".

SEC. 403. RURAL TECHNOLOGY ASSISTANCE GRANTS.

Section 306(a)(11) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926(a)(11)) (as amended by section 402) is further amended—

(1) by inserting "(A)" after "(11)"; and

(2) by adding at the end thereof the following new subparagraphs:

"(B)(i) The Secretary shall make grants to States, counties, towns, regional organizations, community development corporations, or like entities, for the purposes described in clause (ii).

"(ii)(I) Grants made under this subparagraph shall be used to—

"(aa) promote the use of advanced telecommunications, related advanced technologies, and computers by the recipients of such grants in rural areas;

"(bb) assist in the creation of new rural businesses or the expansion of existing rural businesses through the provision of telecommunication and computer technology, technical assistance, and business planning to such businesses; and

"(cc) otherwise promote the purposes of this Act.

"(II) Funds appropriated under this subparagraph may not be used for—

"(aa) political activities; or

"(bb) any activities, the effect of which is to relocate existing jobs and businesses.

"(iii) Grants may be made under this subparagraph only for a project intended to benefit a rural area.

"(iv) To receive a grant under this subparagraph an entity of the type described in clause (i) shall submit an application to the Secretary at such time, in such form, and containing such information as the Secretary may require.

"(v) There are authorized to be appropriated to carry out this subparagraph $5,000,000 for each fiscal year.".

SEC. 404. RURAL EMERGENCY ASSISTANCE LOANS.

Section 306(a)(11) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926(a)(11)) (as amended by sections 402 and 403), is further amended by adding at the end thereof the following new subparagraph:

"(C)(i) The Secretary shall establish and implement a program to make loans for the benefit of any town or city that—

"(I) has a population of less than 20,000 individuals within its outer boundaries; and

"(II) is financially unable to obtain funds as quickly as needed to correct emergency conditions or situations needing urgent attention.

"(ii) The Secretary shall promulgate regulations—

"(I) targeting the program established under this subparagraph towards needy communities in rural areas;

"(II) setting forth a definition of 'emergency conditions or situations needing urgent attention'; and

"(III) requiring that the Secretary approve or reject applications within 30 days of their receipt.

"(iii) The Secretary shall limit the amount of loans provided to the same borrower under this subparagraph to $50,000, and the term of such loans shall not exceed 2 years.

"(iv) The Secretary may respond to the credit needs of rural towns or cities eligible to participate in the program authorized under this subparagraph by making loans that are eligible for refinancing after the expiration of the 2-year period described in clause (iii), and payments under such loans may be set at a level that is at a sufficiently low level during such 2-year period so that the financially troubled town or city can participate in the program established under this subparagraph. The Secretary shall assist such borrowers in obtaining financing through existing Farmers Home Administration programs so that such borrowers are able to pay the balance due on each loan at the end of such 2-year period.

"(v) There are authorized to be appropriated $2,500,000 for fiscal year 1990, and $5,000,000 for fiscal year 1991 and for each subsequent fiscal year, to carry out the emergency lending program authorized by the program established under this subparagraph.".

TITLE V—NATIONAL RURAL INFORMATION CENTER CLEARINGHOUSE

SEC. 501. NATIONAL RURAL INFORMATION CENTER CLEARINGHOUSE.

(a) Establishment.—The Secretary shall establish, within the National Agricultural Library, in coordination with the Extension Service, a National Rural Information Center Clearinghouse (hereinafter referred to in this title as the "Clearinghouse") to perform the functions specified in subsection (b).

(b) Functions.—The Clearinghouse shall provide and distribute information and data to any industry, organization, or Federal, State, or local government entity, on request, about programs and services provided by Federal, State, and local agencies and private nonprofit organizations and institutions under which individuals residing in, or organizations and State and local government entities operating in, a rural area may be eligible for any kind of assistance, including job training, education, health care, and economic development assistance, and emotional and financial counseling.

(c) FEDERAL AGENCIES.—On request of the Secretary, the head of a Federal agency shall provide to the Clearinghouse such information as the Secretary may request to carry out the functions specified in subsection (b).

(d) STATE AND LOCAL AGENCIES AND NONPROFIT ORGANIZATIONS.—The Secretary shall request State and local governments and private nonprofit organizations and institutions to provide to the Clearinghouse such information as such agencies and organizations may have about any program or service of such agencies, organizations, and institutions under which individuals residing in a rural area may be eligible for any kind of assistance, including job training, educational, health care, and economic development assistance, and emotional and financial counseling.

(e) AUTHORIZATION.—There are authorized to be appropriated to carry out this section $500,000 for each of the fiscal years 1990 through 1994.

TITLE VI—WATER AND SEWER ASSISTANCE.

SEC. 601. WATER AND WASTE FACILITY GRANTS.

Section 306(a)(2) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926(a)(2)) is amended by striking out "$154,900,000" and inserting in lieu thereof "$204,900,000".

SEC. 602. EMERGENCY COMMUNITY WATER ASSISTANCE GRANT PROGRAM.

(a) Establishment of Program.—Subtitle A of the Consolidated Farm and Rural Development Act is amended by inserting after section 306 (7 U.S.C. 1926) the following new section:

"SEC. 306A. EMERGENCY COMMUNITY WATER ASSISTANCE GRANT PROGRAM.

"(a) In General.—The Secretary shall provide grants in accordance with this section to assist the residents of rural areas and small communities to secure adequate quantities of safe water—

"(1) after a sudden and significant decline in the quantity or quality of water available from the water supplies of such rural areas and small communities; or

"(2) when repairs, partial replacement, or maintenance efforts on established water systems would remedy an acute shortage of quality water.

"(b) Priority.—In carrying out subsection (a), the Secretary shall give priority to projects described in subsection (a)(1), and provide at least 70 percent of all such grants to such projects.

"(c) Eligibility.—To be eligible to obtain a grant under this section, an applicant shall—

"(1) be a public or private non-profit entity; and

"(2) in the case of a grant made under subsection (a)(1), demonstrate to the Secretary that the decline referred to in such subsection occurred within 2 years of the date the application was filed for such grant.

"(d) Uses.—Grants made under this section may be used for water line extensions from existing systems, laying of new water lines, repairs, significant maintenance, digging of new wells, equipment replacement, hook and tap fees, and any other appropriate purpose associated with developing sources of, or treating, storing, or distributing water, and to assist communities in complying with the requirements of the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.) or the Safe Drinking Water Act (42 U.S.C. 300f et seq.).

"(e) Restrictions.—No grant provided under this section shall be used to assist any rural area or community that—

"(1) includes any area in any city or town with a population in excess of 3,000 inhabitants according to the most recent decennial census of the United States; or

"(2) has a median household income in excess of the State nonmetropolitan median income according to the most recent decennial census of the United States.

"(f) MAXIMUM GRANTS.—Grants made under this section may not exceed—

"(1) in the case of each grant made under subsection (a)(1), $500,000; and

"(2) in the case of each grant made under subsection (a)(2), $75,000.

"(g) FULL FUNDING.—Subject to subsection (e), grants under this section shall be made in an amount equal to 100 percent of the costs of the projects conducted under this section.

"(h) APPLICATION.—The Secretary shall develop a nationally competitive application process to receive grants under this section. The process shall include criteria for evaluating applications, including population, median household income, and the severity of the decline in quantity or quality of water.

"(i) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out this section $25,000,000 for each fiscal year.".

(b) IMPLEMENTATION.—

(1) REGULATIONS.—The Secretary shall publish—

(A) interim final regulations to carry out section 306A of the Consolidated Farm and Rural Development Act not later than 45 days after the date of enactment of this Act; and

(B) final regulations to carry out section 306A of such Act not later than 90 days after the date of enactment of this Act.

(2) FUNDS.—

(A) OBLIGATION.—The Secretary shall designate 70 percent of the funds made available for the first fiscal year for which appropriations are made under section 306A(h) of the Consolidated Farm and Rural Development Act not later than 5 months after the date such funds are appropriated.

(B) RELEASE.—The Secretary may release funds prior to the issuance of final regulations under paragraph (1)(B) for grants under section

306A(a)(1) of Consolidated Farm and Rural Development Act.

SEC. 603. LOANS RATES APPLICABLE TO HEALTH CARE AND RELATED FACILITIES.

Section 307(a)(3) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1927(a)(3)) is amended by adding at the end thereof the following new subparagraph:

"(C) Notwithstanding the provisions of subparagraph (A), the Secretary shall establish loan rates for health care and related facilities that shall be based solely on the income of the area to be served, and such rates shall be otherwise consistent with the provisions of such subparagraph.".

SEC. 604. RURAL WASTE WATER TREATMENT CIRCUIT RIDER GRANT PROGRAM.

(a) ESTABLISHMENT.—The Administrator of the Farmers Home Administration shall establish a national rural waste water circuit rider grant program that shall be modeled after the existing National Rural Water Association rural water circuit rider program that receives funding from the Farmers Home Administration.

(b) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $4,000,000 each fiscal year to carry out the program established under subsection (a).

TITLE VII—MISCELLANEOUS

SEC. 701. MONITORING THE ECONOMIC PROGRESS OF RURAL AMERICA.

(a) BUREAU OF THE CENSUS.—The Director of the Bureau of the Census shall expand the data collection efforts of the Bureau to enable the Bureau to collect statistically significant data concerning the changing economic condition of rural counties and communities in the United States, including data on rural employment, poverty and income, and other information concerning the rural labor force.

(b) EMPLOYMENT REQUIREMENTS.—The Bureau of the Census shall, to the maximum extent practicable, employ residents of nonmetropolitan counties for the expanded rural data collection operations conducted in fiscal year 1990.

(c) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated such sums as may be necessary for each fiscal year to carry out subsection (a).

SEC. 702. HISTORIC PRESERVATION REQUIREMENTS.

With respect to applications for assistance under this Act, the Secretary of the Interior, in consultation with the Assistant Secretary and the National Trust for Historic Preservation in recognition of its charter duties, shall prescribe and implement regulations concerning projects funded under this Act and their relationship with the provisions of Acts entitled—

(1) "An Act to establish a program for the preservation of additional historic properties throughout the Nation, and for other purposes", approved October 15, 1966 (16 U.S.C. 470 et seq.); and

(2) "An Act to provide for the preservation of historical and archaeological data (including relics and specimens) which might otherwise be lost as a result of the construction of a dam", approved June 27, 1960 (16 U.S.C. 469 et seq.).

SEC. 703. SEWER AND WATER LENDING BY BANKS FOR COOPERATIVES.

The banks of the Farm Credit System that are authorized to extend credit under title III of the Farm Credit Act of 1971 (12 U.S.C. 2121, et seq.) are authorized to make and participate in loans and commitments, and to extend other technical and financial assistance for any of the purposes specified in such title, including refinancing for such purposes, to any entity that has received or is eligible to receive a loan made or insured by the Secretary of Agriculture under section 306(a)(1) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1926(a)(1)).

SEC. 704. EMPLOYMENT AND TRAINING IN RURAL AREAS.

(a) EXPANDING AVAILABILITY OF EMPLOYMENT AND TRAINING IN RURAL AREAS.—Section 6(d)(4)(E) of the Food Stamp Act of 1977 (7 U.S.C. 2015(d)(4)(E)) is amended by adding at the end thereof the following new sentence: "States may designate one or more areas of the State as areas in which the program shall operate only to serve voluntary participants, but such designations shall not excuse the State from compliance with the performance standards described in subparagraph (L).".

(b) IMPROVING SELF-EMPLOYMENT OPPORTUNITIES.—

(1) AUTHORIZATION FOR PROGRAMS.—Section 6(d)(4)(B) of the Food Stamp Act of 1977 (7 U.S.C. 2015 (d)(4)(B)) is amended—

(A) by redesignating clause (vi) as clause (vii); and

(B) by inserting after clause (v) the following new clause:

"(vi) Programs designed to increase the self-sufficiency of recipients through self-employment, including programs that provide start-up assistance for self-employment ventures.".

(2) EXEMPTION FOR RESOURCES USED IN PROJECTS.—The third sentence of section 5(g) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)) is amended by inserting before the period the following: ", and any resources necessary to allow the household to

carry out a plan for self-sufficiency approved by the State agency under section 6(d)".

(c) PROGRAM ACCESSIBILITY FOR PEOPLE ENGAGED IN EMPLOYMENT AND TRAINING ACTIVITIES.—

(1) STATE PLAN REQUIREMENT.—Section 11(e)(2) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(2)) is amended by adding at the end thereof the following new sentence: "The State agency shall administer the program in a manner such that its offices and points of issuance in rural areas of each such State, as determined by the State, are open at sufficient locations and during sufficient hours to ensure that applicants and participants who are employed or who are participating in an education, training, work, or rehabilitation program under section 6(d), title IV of the Social Security Act (42 U.S.C. 601 et. seq.), or under title I of the Rehabilitation Act of 1973 (29 U.S.C. 720 et seq.) may—

"(A) comply with the requirements of the food stamp program (including reporting changes, providing verification, appearing at interviews, and submitting applications and requests for recertification); and

"(B) obtain and use certification documents and coupons without being absent for or rescheduling normal hours of employment or hours of participation in such education, training, work, or rehabilitation program.".

(2) STANDARDS.—Section 16(b)(1) of the Food Stamp Act of 1977 (7 U.S.C. 2025(b)(1)) is amended by inserting ", and individuals participating in employment and training programs," after "employed individuals".

SEC. 705. VEHICLES NECESSARY TO HAUL FUEL OR WATER.

Section 5(g) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)) (as amended by section 704(b)(2)), is further amended by adding at the end thereof the following new sentence: "The Secretary shall exclude from financial resources, the value of a vehicle that each household residing in a nonmetropolitan area uses to haul water for use in such household's residence that lacks indoor running water or to haul fuel.".

SEC. 706. ASSISTANCE TO COMMUNITIES DEPENDENT ON NATURAL RESOURCES.

(a) ADDITIONAL FUNDS FOR THE REFORESTATION TRUST FUND.—Section 303(b)(2) of Public Law 96–451, relating to the Reforestation Trust Fund, (16 U.S.C. 1606a(b)(2)) is amended by striking "$30,000,000" and inserting "$40,000,000".

(b) ADDITIONAL PURPOSES FOR WHICH FUND AVAILABLE.—Section 303(d) of such Act (16 U.S.C. 1606a(d)) is amended—

(1) in paragraph (1) by striking "and";

(2) by redesignating paragraph (2) as paragraph (3); and

(3) by inserting after paragraph (1) the following:

"(2) economic diversification assistance to communities which are dependent to a significant degree upon Forest Service resource management decisions for their local economic activity; and".

SEC. 707. ASSISTING DISTRESSED RURAL HOSPITALS AND HEALTH CARE FACILITIES.

The Secretary shall establish and implement a program that is similar to the program established under section 353 of the Consolidated Farm and Rural Development Act (7 U.S.C. 2001), except that the debt restructuring and loan servicing procedures shall apply to delinquent community facility program loans (rather than delinquent farmer program loans) made by the Farmers Home Administration to a hospital or health care facility under section 306(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 306(a)). Not later than 120 days after the date of enactment of this Act, the Secretary shall promulgate regulations, as modeled after those promulgated under such section 353, that implement the program established under this section.

TITLE VIII—EFFECTIVE DATE AND IMPLEMENTATION

SEC. 801. EFFECTIVE DATE.

(a) IN GENERAL.—Unless otherwise provided in this Act, this Act shall become effective on October 1, 1989.

(b) REGULATIONS.—

(1) TITLE I.—Final regulations implementing subtitle A, of title I, shall be issued by the Rural Partnership Investment Board not later than March 30, 1990.

(2) SECTIONS 704 AND 705.—Final regulations implementing sections 704 and 705 shall be issued not later than May 1, 1990.

STATEMENT FILED FOR THE RECORD

BY

THE NATIONAL RURAL TELECOM ASSOCIATION,

THE NATIONAL TELEPHONE COOPERATIVE ASSOCIATION,

THE ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT
OF SMALL TELEPHONE COMPANIES, AND

THE UNITED STATES TELEPHONE ASSOCIATION

WITH THE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

OF THE

UNITED STATES SENATE

CONCERNING

S.1036, THE "RURAL PARTNERSHIPS ACT OF 1989"

(AS ORDERED REPORTED BY THE COMMITTEE ON JUNE 14, 1989)

JUNE 23, 1989

We appreciate the opportunity provided by the Senate Committee on Agriculture, Nutrition and Forestry to offer our views for the record concerning S.1036 as ordered reported by the Committee on June 14, 1989. We also appreciate the Committee's willingness to hold open the record of the April 16, 1989 hearing by the Subcommittee on Rural Development and Rural Electrification for the inclusion of this statement which is provided in response to Chairman Leahy's letters to our respective organizations dated June 21, 1989. We ask that our comments and the attached resolutions and economic analysis be incorporated in the hearing record.

Our organizations -- the National Rural Telecom Association (NRTA), the National Telephone Cooperative Association (NTCA), the Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO), and the United States Telephone Association (USTA) -- represent nearly 100 percent of the local exchange carrier industry which provides local telephone service in both the urban and rural areas of the United States, from the largest Bell operating companies to the smallest independent companies and cooperatives.[1] Our organizations and members have been in the forefront of developing from its inception the telecommunications infrastructure in rural America and are strong supporters of the Rural Electrification Administration telephone loan programs.

In addition to supporting REA, we strongly support rural development initiatives. Our associations were among the 117 signers of the April 3, 1989 letter to Congress that urged consideration of comprehensive rural development legislation. We understand that the loss of rural jobs and the concomitant loss of population in rural America means fewer business and residential subscribers to support the cost of the telephone network. This translates to higher rates for those who remain and makes more remote the prospect of including rural America in the information age. Economic development in rural America will expedite the upgrading of our systems, already in progress, and the availability of the information age to rural America for the benefit of all.

Many of our members are already in the forefront of rural development. The Rural Electrification Administration's (REA) telephone loan programs are one of the country's first and finest examples of a successful rural development program.

Telephone systems are exploring forms of rural development as the local economy of their service area continues to falter. However, the central focus of all local exchange carriers must and always will be to utilize all available resources in making affordable telephone service universally available to rural customers. The quality of such service should be equal to that which is available to urban residents. In seeking to achieve this goal, our efforts can and will spark rural development which helps to ensure that America's rural sector remains a viable force in improving the country's overall economic health and that rural Americans have the same access to jobs, education and health care that is available in our nation's urban communities.

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[1] Attachment A contains two recent telephone association resolutions expressing the views of their associations on these issues.

The telecommunications challenge facing rural America is to have in place the infrastructure which will be required for full participation in the information age. The public/private partnership which comprises the REA telephone program has been successful in bringing modern telecommunications to approximately 96 percent of rural Americans. Proper administration and full use of the REA telephone program can effectively accomplish most rural telecommunications goals including those expressed by the Committee in S.1036. The present Rural Electrification Act (Act) specifically authorizes funding for two-way video for educational purposes, and extension and improvement of telecommunications facilities that can be used to link hospitals, government offices and businesses. What rural telephone companies need most in order to modernize the rural telecommunications infrastructure is a consistent commitment by the federal government and a continued source of affordable financing to achieve this goal.

Federal policies should encourage maximum use of the public switched network and not encourage and fund duplicative facilities, particularly with taxpayers money. As pointed out by USTA in its June 22, 1989 testimony before the House Agriculture Subcommittee on Conservation, Credit and Rural Development:

> "Any telecommunications provisions of rural development legislation that favor private networks, at the expense of those held out to all, will damage underlying assumptions behind our existing telecommunications infrastructure. Widespread use of the network is what pays for its great cost. Loss of traffic means loss of revenues and costs that must be shared among fewer remaining rural subscribers. This leads to higher rates. Higher rates mean that service becomes unaffordable for some. A downward spiral can result, if more subscribers leave the network, with even fewer remaining subscribers to share the costs."

This principle has been a cornerstone of national telecommunication policy as stated in the Communications Act of 1934: "...to make available, so far as possible to all the people of the United States a rapid, efficient, nationwide, and world-wide wire and radio communication service with adequate facilities at reasonable charges" (47 U.S.C. §151) (emphasis added).

An essential concern with this legislation is that it runs counter to the above referenced federal law.

Specific Concerns with S.1036

Federally-Funded Duplicative Networks

S. 1036 not only permits but promotes bypass of the local telephone system with federal grant money. Title II creates a new separate program to distribute taxpayer money in grants to provide telecommunications services to three selected categories of users: educational, medical, and business customers. REA programs already are authorized under existing law to meet all of the telecommunications needs addressed, and stepped-up implementation of the REA programs could meet these needs even better. Moreover, in deciding what telecommunications services to subsidize, the bill does not provide for any attention to overall network efficiency and the impact on development of the network for other business and residential subscribers. The programs could well result in legislated disincentives for extending information services and the currently evolving, intelligent network to the remainder of rural areas and rural subscribers.

Star Schools Provision

The best example of this danger is the "Rural star schools educational opportunities program" (Section 205 of S.1036). The "star," i.e. satellite, schools concept of several years ago saw satellite technology as the answer to rural educational isolation. Although satellite technology has limited usefulness in interactive (i.e. two-way "live" instruction) educational programs, satellite service once was viewed as a way to provide widespread distribution of educational material. Technology has sped forward since that time. Video cassette recorders are commonplace and relatively inexpensive; video cassette production and distribution have proved efficient in distributing one-way "programming," including educational presentations. If calls are necessary for students to ask questions of the teacher, telephone lines are already a part of the rural infrastructure. Scheduling of one-way video programs is much easier using tapes at a small fraction of the cost of satellite transmissions and facilities. Thus, satellite technology is not cost-effective or necessary for developing or distributing one-way educational programming. Indeed, an exhaustive investigation of satellite technology for rural communications, involving members of all four of our national telephone associations and the REA, led to the reluctant realization that satellite technology was not the rural communications answer that those with communications expertise had hoped.

In contrast, recent testimony before the House Government Operations Subcommittee on Government Information, Justice, and Agriculture on June 14, 1989 by Communications Systems Inc. president Curtis Sampson, testifying on behalf of NRTA, described the successful use of two-way "interactive" video to link Minnesota schools. Rural telephone systems in several other states (e.g. Iowa, North Dakota, Wisconsin, Kansas, Oklahoma) are already using laser light optical fiber technology to bring two-way interactive video education programs to their schools. Technology has evolved from "star" schools to "laser" schools! Bringing fiber into a rural community to serve school needs provides a major step towards bringing the whole rural area into the new technological era. Its enormous bandwidth provides opportunities beyond what technology could imagine just a few years ago.[2] "Creamskimming" a rural community's largest customers -- schools, businesses, medical facilities -- by developing a competing separate communications system through federal grants, rather than promoting an integrated state of the art network that would serve all customers in rural communities would be a step in the wrong direction for rural America.

Star Schools Partnership Provision

Much of the nation already has been wired with intercity optical fiber. The costs are decreasing as the use of fiber increases. If local schools and other educational groups can obtain grants to achieve their rural distance learning needs as they see fit, they would choose the best technology. If they work with their local telephone systems, the rural development funds could seed further infrastructure development. If, instead, they are forced to enter unnecessary partnerships with other non-local entities, and these others are given a mandatory role in deciding what is best for the local schools, the potential for an integrated widespread information age network is jeopardized. Local needs and concerns may be ignored. While the National Rural Telecommunications Cooperative (NRTC), a private organization, is no longer a named mandatory partner, it is still referenced in the bill as a potential grant recipient source of instructional programming. The provision is sought by that group to accommodate rural electric cooperatives in moving from their traditional REA-financed distribution activities into a federal grant-assisted rural telecommunications role. Far from encouraging sound local infrastructure growth, NRTC does not even allow many rural commercial telephone companies to participate. If the money is given directly to local schools, it is more likely to go to the intended purposes. As written, the bill injects unnecessary middlemen into the process, which makes likely the all-too-frequent phenomenon of money intended for rural areas never leaving Washington.

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[2] S. Brand, The Media Lab: Inventing the Future at MIT, pp.67-68.

The needless partnerships the bill forces educational groups to enter will control what request is made to the telephone company. Rather than encouraging expansion of the existing infrastructure to meet the telecommunications needs in the soundest way for the whole community, the partnership will dictate the communications facilities selection. If NRTC is involved, as it plans, it will obviously select satellite technology, which has not been found suitable or cost effective for rural needs.

The provision in Section 204(d) of S.1036 purporting to give the local telephone company the chance to provide the telecommunications transmission services, represents a commendable improvement. However, the "first opportunity" provision is largely illusory and does not adequately reflect the importance of preserving and building on the present rural infrastructure to benefit all rural people. The partnership may exclude the local exchange carrier and broader telecommunications needs and public policies need not be taken into account. Moreover, the telephone company opportunity is limited to supplying the facilities chosen by the partnership for their grant proposals.

Even though the unnecessary partnerships are not required by the medical and business link provisions, Section 204(g) encourages the REA Administrator to give priority to joint use facilities with the other two telecommunications program. This is a strong incentive to bypass systems to serve all three of the large user categories covered by the bill. However, this provision would be very positive if the telephone system provides the facilities because it encourages the widest use of the public switched network.

Government grants to duplicate local exchange facilities are neither market driven nor economically justified. When subsidy is used to encourage wider connection to the network, every network user benefits. If subsidy is used to syphon people off the network, the network and residual subscribers suffer loss. Government grants that draw customers off the network conflict with basic telecommunications policy.

Adverse Impact on REA Loan Security

Bypass will endanger the security of the $8.5 billion in REA telephone program loans to rural telephone systems. REA telephone loans are based on use of the system's facilities by the "widest practical number of rural users," which REA systems have a duty to serve (7 U.S.C. §922). Interfering with the projected revenue streams on which the loan feasibility findings rest,[3] undermines the borrower's ability to meet its loan obligations. This, in turn, pushes toward higher subscriber rates, which is the antithesis of what the REA programs are designed to accomplish.

Subsidized bypass of the telephone infrastructure raises the costs of telephone service for remaining customers. If the largest rural businesses, professionals and institutions are attracted to non-telephone system communications links funded by federal grants, the customer base available to share the largely fixed costs of both existing service and future developments is significantly reduced. The article by Professor John C. Panzar, at Attachment B, an economist with expertise in telecommunications issues, explains why bypass injures the rural telecommunications infrastructure. As he puts it, encouraging bypass makes it "difficult or impossible" to achieve economically efficient universal service. Dr. Panzar explains (e.g., pp.7-9) that "competition may actually reduce economic efficiency by making cost-efficient, single firm provision of a group of natural monopoly services difficult or impossible." Id. at 8. In other words, the fact that the telephone company can provide the service best or most efficiently does not provide assurance that sound infrastructure will prevail over inferior alternatives. Encouraging inefficient entry with federal grants to duplicate telephone service is more likely to raise rates for rural subscribers and delay or preclude information age services for them.

Intrusion on State Regulatory Prerogatives

S.1036 undermines state local franchise authority and flexibility to use pricing approaches that maximize affordable rural service opportunities for all subscribers. The current RE Act carefully defers to state certification authority and limits loans to state certified carriers. (7 U.S.C. §923). Chairman Marta Greytok of the Public Utility Commission of Texas testified before the House Government Operations Subcommittee on Government Information, Justice and Agriculture on June 14, 1989, on behalf of the National Association of Regulatory Utility Commissioners that states must retain the authority to preserve the integrity of the local franchise boundaries.

This legislation lacks the explicit recognition of the states' jurisdiction and interest in promoting sound infrastructure development, efficiency and reasonable rates for all their citizens, that the present REA statute provides.

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[3] See 7 U.S.C. §904.

The local telephone franchise is important because certificated telephone systems have a duty to serve all on reasonable request. In return, they have been permitted to rely on obtaining revenues for service within their areas to maintain their viability. While rural telephone systems will not be relieved of the duty to serve if they are bypassed, they cannot be expected to provide universal affordable service indefinitely if the limited economic base in their service areas is fragmented. Both the U.S. Department of Commerce and the Aspen Institute have recently recognized that competition can be "counterproductive in sparsely populated areas where the economic base may not be sufficient to support a single firm, much less competing firms."[4] That is the reason for REA funding to rural telephone systems, and that is why federal grants for duplicative networks in rural areas are not sound tools for rural development.

Other Concerns

Some other more specific concerns we have with S.1036 are as follows:

- Section 121 undermines the integrity of REA funding. It is counterproductive because the borrower has to prepay the money it supposedly defers, thus defeating the purpose.
- Section 122 authorizes loans to telephone borrowers for construction of water and sewer facilities, which we have not requested and have no particular expertise to provide.
- Section 204(h)(10)(B) penalizes a telephone company that has not substantially completed a project within 250 days for which it has obtained an expedited loan by allowing the REA Administrator to cancel the project and order immediate repayment of some undetermined amount of the loan funds. This "death penalty" would create stranded investment for which rural subscribers would have to pay and would make the expedited loan procedure unduly punitive. As a practical matter, no local exchange carrier or state commission would be likely to consider that an acceptable risk for a public utility.

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[4] NTIA Telecom 2000, p.97 (October 1988), quoted in E. Parker et al., Rural America in the Information Age, p.89 (1989).

- The partnership requirement in Section 205 should be eliminated. Grants should be made directly to qualified educational institutions, as they are to hospitals and businesses under the medical and business link proposals.

- No federal grants should be made to any telecommunications provider except to the extent necessary to make an REA loan to a certificated local exchange carrier meet REA feasibility standards. Grants should in all other instances go to the customer for telecommunications service, that is, the rural educational institutions, hospitals, and businesses.

- The term "programming" must be defined or, better still, changed to remove the implication that one-way satellite broadcast type instruction is exclusively intended. This is particularly significant since at least 25 percent of the star schools funding under Section 205(b)(5) is allocated to programming.

- Telecommunications transmission facilities as defined in Section 203(10), do not include copper cable, electronic equipment associated with transmission and new radio services for use in the local exchange such as BETRS. This definition tends to exclude much of the existing facilities of local telephone carriers as well as future technological advances associated with these facilities. The definition should be expanded to include all potential and current technologies.

- The definition of communications-satellite ground station complex in Section 203(2) includes not only the earth stations but any terrestrial facilities connected to it. This is tantamount to defining the telephone set to include the central office switch. The definition of an earth station should be just that - an earth station with associated electronics. The broad definition of the earth station could result in government funding of facilities other than earth stations.

- Section 203(3)(E) and other places in the bill refer to the costs and benefits of leasing or purchasing facilities. This may eliminate the majority of telephone services offered under tariffs approved by state public service commissions or the Federal Communications Commission. The options of tariffed services should be included in all appropriate sections of the bill.

- Section 206 "Rural medical link telecommunications program" and Section 207 "Rural business link telecommunications program" are written in such a way that the federal government could finance the initial cost of the equipment, ongoing maintenance, depreciation and other yearly operating costs for terminal equipment as well as transmission. The Government would finance 50 percent of business link and 100 percent of medical link. Financing should be limited to the original cost of terminal equipment only.

- Section 204(h)(11) provides that the REA Administrator must review the charges for expedited loan supported services. This directly involves the REA in ratemaking functions, reserved to the states and the FCC under the Communications Act of 1934. It also contravenes Section 202 of the RE Act, which, specifically preserves other regulatory ratemaking authority.

Conclusion

USTA, OPASTCO, NTCA, and NRTA strongly support rural development legislation and would reiterate:

1. We are not against rural development; in fact, we wholeheartedly support it. However, due to ambiguities in the bill, and the limited public record in hearings to date, it has been difficult to determine the Committee's objectives on several key aspects of the bill. The bill raises a number of questions. We understand that there is pressure for action on these issues to which we are sympathetic. But we are concerned that the law of unintended consequences might be the result of an overly hasty process.

2. An infrastructure for rural telecommunications already exists. Substantial amounts of private capital and government funds (totalling some 8.5 billion dollars) are involved. The local exchange carrier industry has facilities to provide service in almost every geographical area in the United States, including Alaska and Hawaii. this infrastructure is important to both the companies and their rural customers. Sound public policy mandates the utilization of the existing telecommunications infrastructure to the maximum extent possible in any rural development legislation. We are concerned that implementation of this bill would duplicate and bypass this essential establishment.

3. The bill encourages inefficiencies. The bill should promote the most economically efficient modes of delivery of services possible, underscoring the advantages of full utilization of existing rural telecommunications. S.1036 may encourage technologies which are not the most economically and technologically efficient.

As S.1036 moves through the legislative process, we would welcome the opportunity to provide additional information on ways to improve the legislative language. We stand ready to work with you, your staff, and other members of the Committee to reach our mutual goal of meaningful enhancement of rural life through state of the art delivery of modern information age services.

Attachments

A - USTA Resolution and Alabama-Mississippi Telephone Association Resolution

B - Panzar Study

C - Articles from the OPASTCO Roundtable and Rural Telecommunications Journal on fiber-based interactive education systems.

ATTACHMENT A

USTA POSITION ON S. 1036,

THE RURAL PARTNERSHIP ACT OF 1989

The following resolution was adopted by the United States Telephone Association's Executive Committee with directions that it be forwarded to appropriate Senators:

WHEREAS, USTA wholeheartedly supports rural development; and

WHEREAS, an infrastructure which has facilities to provide service for rural telecommunications already exists, which involves some 8.5 billion dollars of government funds; and

WHEREAS, the franchised local exchange carrier can handle rural telecommunications needs; and

WHEREAS, the local exchange carrier industry is committed to working with the government to meet rural telecommunications needs; and

WHEREAS, use of federal funds to create new telecommunications entities in rural areas would undermine the economies on which universal service is based; and

WHEREAS, government funds should not compete against one another;

NOW THEREFORE BE IT RESOLVED, that USTA reaffirms its strong support of rural development; and

BE IT FURTHER RESOLVED, that USTA supports the availability of Federal funds through REA and other existing mechanisms for franchised local exchange carriers to most effectively deliver advances in the rural telecommunications infrastructure; and

BE IT FURTHER RESOLVED, that USTA opposes use of a new federal fund to create new telecommunications entities in rural areas; and

BE IT FURTHER RESOLVED, that we oppose governmental action inviting other entities to enter local telecommunications; and

BE IT FURTHER RESOLVED, that in any situation of rural telecommunications development, the certified LEC should be the preferred provider of telecommunications facilities.

Adopted June 22, 1989.

RTG:sc

ATTACHMENT A

ALABAMA-MISSISSIPPI
TELEPHONE ASSOCIATION

ONE COURT SQUARE, SUITE 209 • MONTGOMERY, ALABAMA 36104 • 205/263-1660

RESOLUTION

WHEREAS, existing rural telephone exchange facilities presently contain various and numerous services capable of providing advanced technologies in the promotion and assistance of rural development.

BE IT RESOLVED, that all rural development legislation provide for full utilization of local, rural telephone exchange facilities.

Adopted this the 13th day of June, 1989.

ALABAMA-MISSISSIPPI TELEPHONE ASSOCIATION

David Weaver, President

ATTACHMENT B

The Continuing Role for Franchise Monopoly in Rural Telephony

by

John C. Panzar

Professor of Economics and Transportation

Northwestern University

March 21, 1987

I. Background of the Author

My present position is Professor of Economics and Transportation at Northwestern University. Previously, I was a department head in the Economics Research Center at Bell Laboratories. I received a B.A., with Distinction in Economics, from Carleton College and the A.M. and Ph.D. in Economics from Stanford University. At Northwestern, I typically teach graduate level courses in Microeconomic Theory, Industrial Organization and Government Regulation. I have also taught courses in Industrial and Regulatory Economics at the University of California, Berkeley and the University of Pennsylvania. I also do independent research and consulting. Recent clients have included AT&T, Commonwealth Edison, the Electric Power Research Institute, the American Newspaper Publishers' Association and the Department of Transportation. I have served on the editorial board of the **Journal of Economic Literature**, and am currently a member of the editorial board of **Information Economics and Policy**. In the past, I have served on the organizing committee of the Annual Telecommunications Policy Research Conference.

Currently, I serve on the organizing committees for the Transportation Deregulation and Safety Conference, to be held at Northwestern in June, and the 1987 meetings of the American Economic Association, to be held in Chicago in December.

I have authored or coauthored two books and numerous articles in professional journals. Much of this research has focused on pricing and market structure issues in regulated and deregulated industries. In particular, I am the coauthor (with W. J. Baumol and R. D. Willig) of **Contestable Markets and the Theory of Industry Structure**, which draws together much of the theory of multiproduct natural monopoly underlying my analysis here.

II. Introduction and Summary

The breakup of Bell System has accelerated the advance of competition in the telecommunications marketplace. Judging from the recent viewpoints expressed by influential regulators* and the notice and request for comments on rate of return regulation issued by the National Telecommunications and Information Administration (NTIA),* monopoly franchises in the telecommunications industry may soon become a topic for courses in economic history instead of economic policy. In my view this would be a grave error. In this paper, I shall argue that the institution of franchise monopoly remains a valuable tool for achieving public policy objectives in the U.S. telecommunications industry.

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* See "Back to the Future": A Model for Telecommunications, by Mark S. Fowler, Albert Halprin, and James D. Schlichting. **Federal Communications Law Journal**, Vol. 38, pp. 145-200 (Back to the Future).

My discussion will focus upon the issues facing small, rural telephone companies (RTCs), since that is where abandonment of the monopoly franchise approach to the provision of telecommunications services will cause the greatest social harm. My principal policy conclusions are as follows: (1) Franchise monopoly for the RTCs should be retained. (2) Competition in intraLATA toll services should not be permitted within the service areas of the RTCs. (3) RTCs should be allowed to engage in the flexible pricing policies required to prevent uneconomic bypass of the local exchange that might otherwise result from federal and state mandated interstate or interLATA toll competition.

Section III presents a discussion of the economic efficiency rationales that underlie the primary telecommunications policy objectives of universal service and efficient provision of rural telecommunications services. Section IV discusses the policies that have been used to pursue these policy objectives. Section V provides an economic analysis of the harmful effects that excessive competition can have on attempts to reach those policy objectives. A number of specific examples of competitive threats facing the RTCs are discussed in Section VI. Section VII is devoted to a comparative analysis of three policy options for dealing with these problems: franchise monopoly, open entry with complete deregulation and open entry with "social contract" regulation. Section VIII concludes the paper with a summary of my policy recommendations.

III. Economic Policy Objectives

The list of goals which may be deemed important when formulating public policy for rural telephone companies can be quite broad. It may include objectives, such as rural economic development, which lie outside the scope of an analysis that focuses upon economically efficient policies for the provision of telecommunications services.** The two policy goals discussed below, universal service and economic efficiency, are rather narrowly defined, but, hopefully, noncontroversial.

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* Comprehensive Review of Rate of Return Regulation of the U.S. Telecommunications Industry, 51 Fed. Reg. 36837 (October 16, 1986) (Notice).

** However the economic importance of the indirect effects of the availability of affordable, reliable telephone service should not be underestimated. See Edwin B. Parker, Economic and Social Benefits of the REA Telephone Loan Program, March 1981. Parker (p. 8) finds "that telecommunications may be the most important component of regional economic infrastructure, possibly more so than transportation or electrification, for rural economic growth."

Universal Service

At least since the drafting of the Communications Act of 1934, universal service--the widespread availability of quality basic telephone service at affordable rates--has been the cornerstone of U.S. telecommunications policy.* The term "universal service" transcends a simple economic interpretation or evaluation, since it includes the social and political benefits that flow from having all members of a community connected to a single telecommunications network. In practice, the goal of universal service has been pursued through the adoption of policies that make it possible for telephone companies to price access to the telecommunications network below the marginal cost of providing it. There are undoubtedly complex social and political forces that have played important roles in the adoption of such policies. However I shall focus upon an important economic efficiency rationale for this policy: i.e., it represents an attempt to correct a potential market failure resulting from network externalities.** For most economic goods and services, economic efficiency results from setting price equal to marginal production cost. The argument is straightforward if the consumption of the good or service benefits only its purchaser. The consumer will make a purchase if and only if he anticipates receiving benefits that he values at least as much as the price paid. If, in turn, the price is equal to the cost of the other resources used to produce the good or service, then every transaction will result in a net gain to society as a whole.

However when a consumer's actions also have a beneficial effect upon others (i.e., they create positive economic externalities), this simple "price equal to marginal cost" optimality rule must be modified. Consider a potential customer deciding whether or not to join the telephone network. He takes into account the anticipated benefits resulting from the ability to call any of the existing network subscribers. If these private benefits are less than the price of access, he will not subscribe. Unfortunately, what he does not take account of are the external benefits that his joining the network would confer on its present subscribers, since all 100 million of them would then have one more person to call. In this situation, it is clear that economic efficiency would be enhanced if all potential subscribers for which the total benefits (i.e., private benefits plus external benefits) were at least as large as the marginal cost to society of providing their access could be induced to joint the network. It is equally clear that setting the price of access equal to its marginal cost does not lead to economic efficiency in this case. An access price below marginal cost is required, since, otherwise, whenever the total benefits are greater than the marginal cost of access but he (private) benefits that would accrue to the potential subscriber are less than the price of access, he will not join the network and a potential net gain in benefits will be lost to society.

The above arguments have established that, ideally, access to the network should be provided at a price below the marginal cost of connection, while all other services should be priced at their marginal production cost. Pursuing such a policy creates an unavoidable dilemma in a private enterprise economy such as ours. Even if there were constant returns to scale in the provision of all telecommunications services, a firm (or group of firms) could not follow such pricing policies and remain financially viable.

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* See, for example, Back to the Future, pp. 148-150.

** See Robert D. Willig, "The Theory of Network Access Pricing," in H.M. Trebing, ed., Issues in Public Utility Regulation, 1979.

Intuitively,* it is clear that in order to price one service (access) below its marginal cost, other services must be priced above their marginal costs for the industry to cover its costs. That is, economic efficiency would require that subscriber access receive a **subsidy**** from other services of that firm, from the services of other firms, or from the government's general revenues. Note that the subsidy called for here is based solely upon principles of economic efficiency, and does not reflect any redistributive motives. The welfare calculus employed assumes that society values a dollar of benefits to all consumers equally. It is not assumed that consumers that are heavy users of any particular service or that live in any particular section of the country are in any sense "more deserving" than consumers of telecommunications services, generally.

Economically Efficient Provision and Pricing of Rural Telephone Service

An important goal of telecommunications policy should be to ensure that services are provided to the public at the lowest possible cost to society. When the productive technology is characterized by natural monopoly,*** this means that the market should be served by a single firm. The presence of natural monopoly typically creates additional problems on the revenue side. Marginal cost pricing will not allow the firm to cover its costs when there are economies of scale. Thus, in addition to the need to raise revenues to subsidize access, it is also necessary to raise prices above marginal costs in a way that covers total cost while reducing economic efficiency the least. Presuming that the typical RTC is a natural monopoly because of economies of scale and scope, the greatest damage to economic efficiency would occur if improper policies led to wasteful duplication of facilities in the market. Therefore, price and entry regulation need to be carefully coordinated in order to achieve the full extent of economies of scale and economies of scope available to a RTC.

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* This intuition can be made precise. If the technology exhibits constant returns to scale, marginal cost pricing will result in the firm breaking even. If the technology exhibits increasing returns to scale, marginal cost pricing will result in a deficit. A firm is said to enjoy **economies of scale** if, when all output levels are increased proportionately, total costs rise less than proportionately. In the single product case this means that average cost falls as output increases and that marginal cost is less than average cost. See J. C. Panzar and R. D. Willig, "Economies of Scale in Multi-Output Production," **Quarterly Journal of Economics**, 91, 1977, pp. 481-494.

** In economic terms, a service (or group of services) is said to receive a subsidy if the revenues it generates are less than the incremental costs of providing it. If the firm as a whole just breaks even, so that no subsidy is received from external sources, than such services are said to be cross-subsidized by the firm's other services. See G. R. Faulhaber, "Cross-Subsidization: Pricing in Public Enterprise," **American Economic Review**, 65, 1975, pp. 966-977.

*** An industry is said to be a **natural monopoly** if it is less costly for a single firm to serve the market than it is for two or more firms. The term, **economies of scope** refers to situations in which it is less expensive to provide two or more services jointly rather than separately. See W. J. Baumol, J. C. Panzar and R. D. Willig, **Contestable Markets and the Theory of Industry Structure** (1982), Chapters 3, 4 and 7.

Prior to the current wave of procompetitive and deregulatory sentiment, it would scarcely have been necessary to argue that the provision of telecommunications services exhibits substantial natural monopoly characteristics. Perhaps the current skepticism on this point can be attributed as a backlash toward the traditional (predivestiture) Bell System position demanding "end to end" responsibility for much of the national telecommunications network.* Nevertheless, it is hard to argue with the logic of the position that it would be wasteful and inefficient to have more than one local exchange carrier serving a given geographic area. To do so would result in wasteful duplication of investments in access lines and switches, as well as unnecessary duplication of operation and maintenance expenses. Indeed, it was the desire to eliminate the economic costs of too much competition that, in large part, led to the establishment of franchise monopoly regulation in the first place.**

Nor can it be argued that this generally prevailing common sense view has changed significantly over the intervening six-odd decades. The terms of the settlement of the Justice Department's antitrust suit against AT&T, the Modification of Final Judgment (MFJ),*** were based on the premise that the local exchange service of the Bell Operating Companies (BOCs) constituted a "bottleneck monopoly" and therefore must be structurally separated (i.e., divested) from interexchange carrier (IXC) in order for competition to succeed in the interexchange market. The MFJ distinguished exchange and exchange access services--with the BOCs limited to providing such services within local access and transport areas (LATAs)--from interexchange services, with IXCs providing the links between LATAs. The effect was to establish areas in which service would be provided by a BOC, each presumed to be a natural monopoly within its geographic service area. The long haul transmission markets that connect these areas were presumed to be at least potentially competitive, to be served by one or more IXCs. I believe that it is still reasonable to conclude that the intraLATA service area of the typical LEC is characterized by natural monopoly. Since the RTCs are smaller and serve less densely populated areas than the average LEC, the degree of unexploited scale economies (i.e., the extent of natural monopoly) that characterize their operations will be greater than average.

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* See, for example, Back to the Future, Section III, pp. 153-158.

** For example, the Indiana commission found that ". . the telephone industry, which under proper regulation and for public convenience and necessity should be regarded as a natural monopoly, has been subjected to sharp and destructive competitive conditions, until telephone service in Indiana has been reduced to a chaotic condition from which it is slow to emerge." Central Union Tel. Co., P.U.R. 1920B 813, 847-48 (Ind. Pub. Serv. Comm'n 1920). These sentiments were echoed in state after state. In Illinois, it was found that "it is undoubtedly an economic waste for two telephone companies to endeavor to serve the same community." Commercial Tel. & Tel. Co. v. People's Tel. Co. of Southern Illinois, No. 2139, 2-3 (Ill. Pub. Utils. Comm'n, May 29, 1914). See also Citizens Tel. Co. of Grand Rapids, P.U.R. 1921E 308, 315 (Mich. Pub. Utils. Comm'n 1921) and Northwestern Tel. Exchange Co., P.U.R. 1918E 481, 484 (Minn. Railroad and Warehouse Comm'n 1918).

*** United States v. American Tel. & Tel. Co., 552 F. Supp. 131 (D.D.C. 1982).

IV. POLICY IMPLEMENTATION

In the past, the revenues necessary to promote universal service came from the local exchange carriers' other services and from toll services via the separations and settlements process. The ability of the RTCs to pursue universal service was also aided by the provision of low interest REA loans. Efficient provision of rural telecommunications services was accomplished by the granting of franchised monopolies that provided local exchange carriers with protection from competitive entry in return for assuming the obligation to serve everyone in their communities at reasonable rates. Underlying this policy was the view that the local exchange market was a natural monopoly: i.e., economies of scale and scope were such that a single firm could provide the desired services at the lowest cost to society.

Even in the context of the present, more competitive, national telecommunications market, policy makers at all levels of government have reaffirmed universal service as an essential policy objective. However competition in the toll marketplace, and the resulting downward pressure on toll rates, have made it necessary to create more sophisticated policies for generating the toll contribution toward coverage of local exchange carriers' nontraffic sensitive (NTS) and traffic sensitive (TS) costs, and providing any subsidies necessary to promote universal service.

Current policy provides for nationwide pooling of the carrier common line (CLC) access charges collected from interstate interexchange carriers which are then distributed to the LECs. Also, the FCC has introduced nationwide subscriber line charges (SLCs) that are also used to help cover the costs of local exchange plant allocated to the interstate jurisdiction. Since the RTCs have smaller exchanges and lower subscriber densities (and thus higher costs) than average, their customers benefit from the cost averaging involved in this arrangement, as well as from the Universal Service Fund's provisions that increase the interstate contribution to the NTS costs of high cost local exchange carriers. While these policies seem to have helped maintain (nationwide) penetration levels,* it must be recognized that the flow of revenues they support is quite sensitive to changes in technology and the competitive environment. State policies for generating contributions from intrastate toll revenues toward the recovery of local exchange carriers' NTS and TS costs vary, but often tend to resemble interstate practices.** REA low interest loans play a continuing role in keeping down local rates for the RTC's customers.

While policies designed to generate the interexchange revenues necessary to promote universal service receive continuing support, the effectiveness of the policy of franchise monopoly in promoting the efficient provision of local exchange services is being eroded. The freedom of IXCs and their large customers to bypass the local exchange with their interstate toll traffic is but one aspect of this problem. In order to understand current threats to efficient, monopoly provision of local exchange services caused by the introduction of competition in interexchange markets, it is important to understand the role played by the LEC in the national telecommunications network. Put most simply, the LEC provides the subscriber with access to the network, the ability to make calls within the same local exchange, and the ability to originate and terminate (interLATA or intraLATA) interexchange calls. Thus, the local exchange carrier provides both a final product (local service) and an input used by other carriers in the provision of another final product (interexchange service). Since much of the costs of constructing, operating and maintaining the local exchange are both fixed and sunk, they must be borne by the LEC even if some or all of the originating and terminating interexchange traffic that they were designed to serve bypasses the local exchange. Therefore, regulatory policies which encourage bypass of the local exchange make it difficult or impossible to achieve the policy objectives outlined above.

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* See the report of the FCC Industry Analysis Division, July 22, 1986.

** See Telephone Competition and Deregulation: A Survey of the States, Office of Policy Analysis and Development, NTIA, October 1986.

In addition to these problems caused by competition in interexchange markets, proposals for "trial deregulation of all telecommunications goods and services" (Back to the Future, p. 147) and "social contract" approaches to regulation raise the specter of virtually unlimited entry into the market for local exchange and intraLATA toll services. These policy recommendations will be evaluated in Section VII. First, however, it is important to gain a deeper understanding of the problems that unfettered competition may create in achieving the objectives of universal service and the efficient provision of telecommunications services.

V. Problems Posed by the Spread of Competition

In the absence of competitive pressures, a regulated multiproduct monopoly could pursue a wide variety of objectives via its rate structure and, at the same time, earn a fair rate of return on its investment. With many degrees of freedom, the firm or its regulator could set prices to achieve desired cross-subsidies and/or attempt to set economically efficient prices for its services. With open entry, a great deal of this flexibility disappears. In the limiting case of perfect contestability,* the firm cannot sustain any cross-subsidy in its rate structure, even when it is called for on grounds of economic efficiency. This means that, if there are services or classes of users that can be served at roughly constant unit costs, competition will drive those prices down to cost, eliminating the contribution toward the firm's overhead costs previously obtained from such services or users.

At this point, it necessary to address the question: If the provision of rural telecommunications services is, as I have argued, characterized by substantial natural monopoly attributes, why is the threat of competitive entry a concern? Won't any competitive entrant always be successfully repulsed by the natural monopolist, unless it has either lower costs or innovative services to offer? Indeed, this was the conventional wisdom until fairly recently.* However research on pricing and entry in regulated markets over the last decade has demonstrated that it may, in fact, be impossible for a natural monopolist to set prices that cover its costs without providing an opportunity for profitable entry in one or more of its markets. The natural monopoly may be **unsustainable.****

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* Perfect contestability is a benchmark case in which any available profit opportunity results in competitive entry. It is considered most relevant when, unlike the local exchange case, there are no sunk costs associated with entry and exit. Essentially, perfect contestability is a generalization of the concept of perfect competition to situations of natural monopoly and increasing returns to scale. See Baumol, Panzar and Willig, op. cit.

Thus, when competitive entry is permitted into the markets of a franchise monopolist, the effect is not uniform. Entry tends to occur where there is the greatest difference between the rates offered by the monopolist and the costs of alternative means of providing the service in question. Furthermore, successful entry in such cases does not necessarily mean that the entrant can produce more efficiently than the monopolist. The monopolist's tariffs may be considerably above its costs for a variety of reasons: to finance a socially desired subsidy elsewhere, because of rate averaging, or simply because financial viability in the presence of economies of scale requires that some rates exceed the corresponding marginal costs. In some cases, such inefficient entry could be deterred if the monopolist's rates were realigned, at the cost of negating the policy objectives which may have prompted those rates.

However the monopoly sustainability literature referred to above has demonstrated that it is also possible that there exists no realignment of rates (or no socially acceptable realignment of rates) that would permit the monopolist to forestall inefficient entry. In that case, the monopoly cannot avoid surrendering a subset of its services to competitive entrants. The monopoly itself is unsustainable. The result is either financial viability problems for the monopolist, higher prices for its remaining customers, or both.***

The above discussion provides an explanation of how and why competition may actually reduce economic efficiency by making cost efficient, single firm provision of a group of natural monopoly services difficult or impossible. It has also pointed to the additional constraints that will be imposed on the firm and its regulators in their attempts to set prices in a way that fosters the pursuit of policy goals such as universal service. However, somewhat more surprising is the fact that the other effect of competition, driving some prices to marginal cost, does not necessarily lead to an increase in economic efficiency either! In other words, the optimal amount of competition may be less than the maximum amount possible.

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* "If a natural monopolist is producing and pricing as efficiently as possible, there is no need to bar competitive entry: it is economically unnecessary and will not take place anyhow." Alfred E. Kahn, **The Economics of Regulation 2,** 1971, p. 223.

** See, for example, J. C. Panzar and R. D. Willig, "Free Entry and the Sustainability of Natural Monopoly," **Bell Journal of Economics,** 8, 1977, pp. 1-22.

*** Bypass of rural local exchange carriers seems to be the primary sustainability problem likely to face the RTCs in the near future. If large customers are able to remove their toll traffic from the local exchange, these RTCs and their customers will be dealt a severe financial blow. The financial impact of this type of bypass is particularly severe for the RTCs because a few large users may account for a much larger proportion of their toll traffic than is the case for the typical local exchange carrier.

This is true because the economically efficient pricing of telecommunications services involves an application of what is known as "the economic theory of the second best." This general principle states that, when it is impossible to simultaneously satisfy the standard rules for achieving economic efficiency in all markets, it is, in general, a mistake to apply myopically the rules in those markets in which it is possible. In the telecommunications industry, the principle reason that the basic rules for economic efficiency (i.e., price below marginal cost for access, prices equal to marginal costs for other services) cannot be satisfied simultaneously in all markets is that the firms in the industry would not recover their total costs. Thus, given the presence of network externalities and natural monopoly elements (e.g., local exchange service) in the telecommunications network, it is, in general, not economically efficient to allow competition to drive some (i.e., interexchange service) prices to marginal costs. Typically, economic efficiency would dictate that the prices of all other services be raised above their marginal costs to generate sufficient net revenue contributions to make up for subsidized access prices and to cover NTS fixes costs.*

VI. Examples of the Potential Vulnerability of the RTCs to Competition

The preceding section has made it clear that even a natural monopoly may be vulnerable to wasteful competitive entry and that, even if wasteful entry does not actually occur, the constraints that competition imposes on the pricing policies of the firm and its regulators will make it more difficult to achieve the goal of universal service. This section outlines some specific examples and sources of threats to the natural monopoly service provided by the RTCs.

Interexchange Carriers (IXCs)

Bypass of the local exchange by IXCs has not yet become a major problem in many rural areas because the competitive interexchange carriers typically do not possess terminating facilities directly connecting to end users within the service areas of most RTCs. However, policies at the federal level have affirmed the right to bypass the local exchange in order to carry customers' interstate traffic, and 36 of the 38 multiLATA states have allowed facilities-based intrastate interLATA competition.* Thus there remains the possibility that AT&T and other IXCs may attempt to bypass the RTC to serve the interexchange traffic of its large customers at any time.

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* The classic reference on the second best problem is R. G. Lipsey and K. Lancaster, "The General Theory of the Second Best," **Review of Economic Studies**, 24, 1956, pp. 11-32. For a discussion and derivation of the rules for economically efficient pricing under a break-even constraint, see W. J. Baumol and D. E. Bradford, "Optimal Departures from Marginal Cost Pricing." **American Economic Review**, 60, 1970, pp. 265-283. An analysis of these issues that deals with the special relationship between local and interexchange service can be found in J. C. Panzar, "Sustainability, Efficiency, and Vertical Integration," in P. Kleindorfer and B. Mitchell, ed., **Regulated Industries and Public Enterprises**, 1980. Willig, **op. cit.**, incorporates network externalities into the analysis as well.

Another threat to the natural monopoly of the RTC is the prospect of competition in the market for intraLATA toll services. Here, the response of state regulators has been more varied. While, as of October 1986, 18 states had decided to permit facilities-based intraLATA toll competition,** in many cases the regulatory debate raised issues similar to those discussed above. For example, in Michigan (MCI Telecommunications Corp., 66 P.U.R. 4th 674, 698-99 (Mich. 1985)),

> [The commission] is troubled by the effect that immediate deregulation will have on local telephone companies. IntraLATA toll rates subsidize local access line costs. . . . This approach to basic exchange service can exist only as long as the local telephone companies' monopoly of the intraLATA market is preserved or subsidy is provided through an intraLATA access charge that is paid by all carriers. . . .
>
> Given the subsidy, the commission must preserve a monopoly in some area or risk jeopardizing the state's local telephone systems. The LATAs provide the only available structure for doing this.

Similarly, in Arkansas (Intrastate Separations, Settlements, and Intrastate Toll Rates of Return, 72 P.U.R. 4th 73, 87 (Ark. 1985)) the commission found that,

> The record. . .establishes a genuine basis for concern that the authorization of full and unrestricted intraLATA competition could very well result in inefficient duplication of intraLATA toll facilities, the stranding of LEC toll facility investment, and the erosion of the present toll revenue stream to the LECs. . . .
>
> The commission's concern with regard to intraLATA cream skimming refers to the fear that competing, facility-based carriers would choose only to install transmission facilities on selected high-traffic, high-density routes, which would in turn result in toll rate deaveraging with a concomitant short-haul toll rate increase for low-traffic routes. . . . Accordingly, the LECs would in all probability be left only with the less dense, high-cost, low-profit routes. Such a situation clearly would have a detrimental economic impact on the LEC and would, therefore, probably lead to higher basic service rates in order to compensate the LEC for lost toll revenues. Such a result is clearly contrary to the public interest.

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* See "Telephone Competition and Deregulation: A Survey of the States," Office of Policy Analysis and Development, NTIA, October 1986, p. 6.

** Ibid., at 11.

To this point, the majority of the state jurisdictions have found these arguments more compelling than the uncertain potential future benefits of toll competition.*

Shared Tenant Services (STS)

Advances in technology and competition in the CPE market have made it attractive for developers of large apartment and office complexes to aggregate the telephone traffic of their tenants before it reaches the local exchange using their own PBXs. Creating their own mini local exchange carrier in this way allows them to reduce the number of access lines connecting the complex to the local exchange. The resulting reduction in revenues from subscriber line charges from subscribers whose cost of connection is relatively low would necessitate increases in local rates generally, with the impact borne primarily by more isolated business and residence customers.

Obviously, this problem promises to be particularly severe for the RTCs that have not installed equipment that makes local measured service a practical tariff option. In those cases, the tenants in a building offering STS can obtain their savings through reduced flat rate local service charges with on the relatively minor inconvenience of increased blocking of incoming and outbound calls. While many states prohibit this practice, or limit it to aggregating only the tenant's toll traffic, this problem is likely to become more severe as sophisticated CPE becomes even less expensive.

Other Local Exchange Carriers

The prospect of a neighboring local exchange carrier carrier (e.g., a BOC) constructing a private line link between a RTC's large corporate customers and its own local exchange network would pose a serious threat to the financial viability of the RTC and to the affordability of the local rates charged to its remaining customers. The BOC would thereby capture the contribution of such users' interstate and interLATA toll traffic, deprive the RTC of its share of intraLATA toll traffic, and earn local service revenues from these customers instead of having these funds go the the RTC.

VII. Policy Options

Long term national telecommunications policy decisions will have profound implications for rural telephony, even though the focus of such decisions is directed at the issues impacting the urban majority. This section provides an overall policy recommendation and attempts to assess the impact that two other current policy proposals would have on the RTCs and their customers.

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* More recently, Connecticut's Department of Public Utility Control has also found that it would be premature to allow competition in intrastate interexchange telecommunications service. See DPUC Investigation into Competition for Intrastate Interexchange Telecommunications Services, Docket No. 85-06-04, delivered December 31, 1986.

Flexible Franchise Monopolies Regulation for the RTCs

The franchise monopoly approach toward local exchange service has come under increasing attack along with the increase in CPE and interexchange competition following the break-up of the Bell System. However this form of service, combined with low interest REA loans, has proved to be effective in the past in achieving the policy objectives of universal service and ensuring efficient, natural monopoly provision of service to rural telecommunications subscribers. Franchise monopolies should be continued as long as the technology for providing rural telecommunications services continues to exhibit substantial natural monopoly characteristics.* This does not mean that current regulatory practices cannot be improved and streamlined, since the overhead costs associated with regulatory filing and recordkeeping requirements are particularly burdensome for small RTCs and their customers, who ultimately bear such costs. However my recommendations for modifications of traditional state regulatory practice will focus on policies designed to mitigate the harmful effects of competition that is beyond the states' ability to control.

First, a policy of protecting the territorial integrity of the RTCs' franchise monopolies for exchange and intraLATA toll services would solve most of the problems described in previous sections. Barring facilities-based competition by common carriers in the markets for local exchange and intraLATA toll services will prevent the construction of unneeded, duplicative facilities and avoid stranded RTC investment. This prohibition will also prevent erosion of the substantial contribution of intraLATA toll revenues toward the recovery of NTS and TS costs of the local exchange. Furthermore, this would eliminate the specter of selective entry driving some, but not all, prices to cost, putting economic and social pricing objectives in jeopardy. States should not allow for facilities-based competition within the service areas of the RTCs.

Second, where competition is present, pricing flexibility is an essential ingredient of sound regulatory policy.** The importance of flexibility in rate design, emphasized below in the context of the specific examples of the previous section, is applicable to all of the RTCs' service offerings: e.g., local service, intraLATA and intrastate toll, and network access. Local measured service is an important tool for reducing bypass incentives. However, many RTC exchanges do not have the traffic volume to justify installing the switching equipment that makes local measured service a practical alternative. Therefore, I shall focus the discussion of rate flexibility on the various types of access charges relevant to the typical rural local exchange carrier.

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* The New York Commission shares an even broader version of this view (State of New York Public Service Commission, Comments Responding to NTIA's Review of Rate of Return Regulation of the U.S. Telecommunications Industry, 12-16-86, p. 1):

> "At the outset we want to emphasize that with respect to the provision of basic monopoly services, this Department views rate of return regulation as absolutely essential. Only after we are satisfied that effective competition exists would we be willing to use less stringent methods of regulation. As the New York Commission noted in its order instituting its formal investigation of these matters (Case 29469), there is currently no basis for concluding that such competition exists with respect to the basic services provided by local telephone companies."

** For similar view of the New York Commission, see Ibid. at p. 3.

A local exchange carrier's primary product is the provision of access to its local exchange network. Essentially, this access is provided for three types of users: business subscribers, residential subscribers and interexchange carriers. Within these broad categories there exists substantial diversity with respect to the costs of providing subscriber lines, the intensity of subscriber line utilization, and the elasticity of demand for subscriber lines. In the face of competitive entry, to pursue effectively the policy objectives stated at the outset (universal service and efficient supply of services), it is essential that the RTCs have as much flexibility as possible in pricing access, their bread and butter service. This includes the freedom to: engage in socially desirable price discrimination both within and across user categories, offer nonlinear per line access charges, and negotiate the terms of service to large users on a contractual, nontariffed basis.

Let us examine how this policy of flexible franchise monopoly regulation can be used to deal with the competitive threats described in the previous section.

Interexchange Carriers

While it is beyond the power of the states to prohibit facilities-based bypass of the local exchange for interstate toll traffic, it is within their power to implement intrastate access pricing policies that do not aggravate bypass incentives, and thereby help the RTCs retain the interstate and interLATA toll traffic of their large users.

With respect to intraLATA toll service, maintaining the RTC's natural monopoly by prohibiting facilities-based competition provides the advantages of continuing the flow of contributions toward recovery of the NTS costs of the local exchange and ensures that wasteful duplication and stranded RTC investment will not occur.

Shared Tenant Services

While, technically, the provision of STS involves resale of local exchange service it is usually not done on a true common carrier basis, being typically limited to the tenants of a contiguous block of real estate. It would probably be unwise and quixotic to attempt to prohibit these systems entirely since, in the case of new buildings and developments, this type of traffic aggregation may be the most efficient form of access. However, it is essential that intelligent pricing policies be available to local exchange carriers in order to meet this challenge.

Upon reflection, it is clear that this form of bypass is encouraged by the absence of local measured service tariffs and by regulatory pricing rules that require that uniform rates be applied to all access lines of a given class. This problem could be mitigated if the local exchange carrier were allowed to set nonlinear prices for access lines. For example, a low "lifeline" rate for a customer's first one or two lines followed by steep per line increases over some intermediate range and eventual quantity discounts for very large users.

It would also be desirable to allow the RTC to provide services to such complexes on a nontariffed, contractual basis. For new complexes these policies should enable the RTC to get the business (and perhaps some contribution toward NTS cost recovery) whenever it is economically efficient for it to do so. For existing complexes containing embedded plant, the agreement for connecting the STS system to the local exchange should require the landlord to assume financial responsibility for the unamortized portion of the embedded plant contained in the complex. This would ensure that existing investment would be stranded only when the other cost savings involved are large enough to justify it.

Other LECs

Again, strict enforcement of the RTC's territorial natural monopoly franchise for intraLATA service would prevent a BOC, or other large LEC, from picking off the RTC's large customers and the contributions from their toll traffic. Not only would this eliminate the burden of increased rates that would fall upon the RTC's remaining subscribers if that traffic were lost, but the historic spirit of cooperation between the BOCs and the (predivestiture) Independent Telephone Companies would be preserved. As long as it is understood by all that service territories will remain inviolate, the BOCs will continue to have the incentive to cooperate with the RTCs in modernizing their networks. This is yet another manifestation of the effects of network externalities. The demand of the BOCs customers for a new or enhanced service, such as packet switching, will be greater the greater the nationwide number of partners with which they can communicate. Thus territorial exclusivity provides the BOCs with the incentive to assist the RTC in extending the availability of such new offerings to all of its subscribers.

Deregulated RTCs: Back to the Past?

In "Back to the Future," FCC Chairman Fowler and his coauthors describe their vision of a totally competitive national marketplace for telecommunications services. Little mention is made of RTCs in that paper, yet they are not excepted from their proposal (page 194) for

> . . a three-year trial of total deregulation of telecommunications would be implemented in states willing to undertake such experiments. Regulation of telecommunications goods and services would be largely suspended, including all entry/exit regulation, all rate-of-return regulation of individual service prices, and all structural regulation imposed by regulators or under the MFJ.

The way to evaluate the effects of this bold proposal on the RTCs and their subscribers is to attempt to envision the changes in the behavior of the RTCs should they find themselves facing strong competition.*

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* The discussion that follows refers primarily to investor owned RTCs for which competition and deregulation may lead to conflicts between the interests of investors and subscribers. RTCs that are owned and operated as cooperatives are in a different situation. Since investors and consumers are essentially the same group of people, such conflicts of interest are less likely to arise.

The prospect of re-regulation may prevent firms from attempting to extract the maximum possible monopoly profits. However, to remain financially viable, a RTC facing strong competition may be forced to raise sharply rates for those services and customers whose characteristics indicate that they have no alternative supplier. Such a firm may find it necessary to charge the highest prices to those whose demand for connection is most inelastic: single-line business and residence customers, especially those located in remote areas.

It is suggested in Back to the Future that unregulated local exchange carriers are "unlikely to find it in their economic interest to price local service at a level that causes any significant number of subscribers to drop off the network." (p. 195), because "the marginal cost of attracting new subscribers or retaining existing subscribers in areas that are already wired for telephone service is relatively small." (footnote 153, p. 195). This argument is incorrect. According to economic theory, even if the marginal costs are zero, a monopolist facing a relatively inelastic demand curve for access will charge a very high access price, i.e., one that maximizes its revenue, not the number of subscribers!* Even a RTC embued with the traditional universal service ethic of the telephone industry may be compelled by competition for its large customers to raise rates greatly for its small customers.

In addition to sharp rate increases, competitive entry into the markets of the RTCs would have unfortunate consequences for the quality of service and the rate of modernization of the rural telecommunications network. In the absence of a regulation-fostered company service ethic, improvements in service quality and the modernization of facilities will be driven by their profitability. That is, customers whose demand characteristics and competitive alternatives make providing state of the art technology profitable will get it, others (e.g., small business and residential customers) will not.

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* It is difficult to even begin to estimate the price that an unregulated, profit-maximizing monopolist that has abandoned the universal-service ethic and does not fear re-regulation would charge for network access to residence and small business customers lacking any competitive alternative. It is well known (see, e.g., **Jack Hirshleifer Price Theory and Applications**, p. 242) that a monopolist always chooses a price at which demand is elastic: i.e., where a price increase reduces both output and revenues. Yet the available estimates of the demand for access yield elasticity estimates that are much less than one. See, for example, Residential Demand for Telephone Service in Areas Serviced by the United Telephone System, National Economic Research Associates (NERA), 1985. The NERA estimates result in elasticity values that increase with price and decrease with penetration (p. 6). Yet for an exchange with an access charge of $20 and penetration rate of only 85%, the estimated price elasticity is less than .17 (Table 2, p. 7). Imagine the increase in access price and decrease in penetration rate required before the price elasticity of demand exceeds the 1.00 required by a profit maximizing monopolist! Of course, the results of the NERA model should not be extrapolated that far outside the range of the sample from which it was estimated.

Given all of these unpalatable likely consequences of competitive entry on the RTCs, it seems probable that state authorities would wish to avail themselves of the option (Back to the Future, p. 196):

> . . .to regulate (i.e., set a price and limit entry for) any service it was willing to subsidize from general tax revenues. The states may well determine to continue their regulation of local exchange service rates for residential and, perhaps, small business users, the services over which the local telephone companies are most likely to retain significant market power in the short term. Because these services are currently priced below cost in most instances, continued regulation will bring with it a need for external funding.

Of course, in theory, this policy has much to recommend it (ignoring for the moment the question of natural monopoly in the provision of intraLATA toll services). However, as discussed above, it is precisely the need to cover the deficit that would result from the (economically efficient) subsidization of network access combined with the marginal cost pricing of other service that gives rise to the substantive public policy issues in the regulation of telecommunications or any other public utility. If the government could promise to make up the deficit that would result if (first best) economically efficient pricing were implemented, regulatory policy makers would have had an easy time of it all along! Unfortunately, aside from the important role played by REA subsidized low interest loans, it has not been politically feasible in the U.S. to subsidize public utilities using general revenues.

"Social Contract" Proposals

Recently, attention has been focused on alternatives to rate of return regulation that have come to be known as "social contract" approaches to telecommunications regulation. While they differ in detail, these proposals suggest replacing rate of return regulation with an agreement between the regulatory commission and the utility that specifies a time path of future prices for a set of essential basic services, such as residence and single-line business local exchange service, but eliminates regulatory oversight of the firm's remaining activities.

Before discussing the merits of such proposals, it is important to point out that, as long as it can be successfully argued that telecommunications services are "affected with a public interest," the industry will always be operating under some social contract, either implicit or explicit. If efficient provision of a service requires long-lived sunk capital, then the terms upon which it can be provided to the public depend critically upon the nature of the commitment that society can provide to the firm regarding the future returns from its investment. Given the inherent power of the state to regulate rates in such cases, investors will either require a very high initial rate of return and/or build undercapitalized facilities unless some guarantee is provided against future expropriation of their assets resulting from regulatory prices that do not allow them to earn a competitive return on (or even recover) their capital investment.

Monopoly rate of return regulation constitutes one way of making such a commitment, and, thus is itself, a form of social contract. While rate of return regulation has been criticized for its inefficiencies, it should be remembered that this constitutes only part of the total picture. When there are important potential cost (e.g., wasteful duplication of investment) involved in using the market to allocate resources, it is often a rational response to forgo some of the traditional benefits associated with the competitive market mechanism (e.g., marginal cost pricing) in order to mitigate the potential for market failure.

In his classic paper, "Regulation and Administered Contracts" (Bell Journal of Economics, 1976, pp. 426-448), Victor Goldberg presents a persuasive argument that many of the characteristics of franchise monopoly regulation (e.g., protection of the monopolist's right to serve and adjustable, cost-based pricing policies) that are thought to be inefficient, are also typical of contracts that govern long term relationships involving substantial long-lived sunk investment in the unregulated private sector. This indicates that such provisions are indicative of an efficient response to that situation, rather than being an "inefficiency" unique to the regulatory arena.

To see this analogy most clearly, think of the regulator, acting as an agent for consumers, negotiating a "contract" with the shareholders in the regulated firm for the provision of local exchange services to a community. Given that providing this service requires long-lived, market-specific investment, the regulator is going to be able to drive a better long term bargain with investors if, for example, he can guarantee that competition in the local exchange market will not be allowed during the useful life of the sunk investment.* That is, the best bargain that consumers can make with investors on an ongoing basis may well involve protection of the producer's right to serve. Similarly, at the outset, it may also be advantageous to agree, not on a prespecified price of service, but rather upon a process that determines price at each subsequent point in time.

By establishing procedures that allow the prices of the firm to be regularly adjusted, using all available cost and demand information, rate of return regulation reduces the riskiness and variability of the flows of returns facing investors. Reduced risk makes them willing to accept a lower fair rate of return, and this, in turn, means that rates will be lower for consumers, on average. Similarly, a franchise monopoly provision limits the risk that competitive entry will prevent investors from recovering the value of their sunk investments. This too leads to lower average rates for consumers. In contrast, a social contract that establishes fixed prices for consumers, requires the firm's investors to bear all of the risk associated with competitive entry and uncertain cost and demand conditions. They will demand a higher average return for doing so.

Since our experience with fixed price or indexed social contracts is minimal, it is as yet unclear how binding such a commitment can be upon either party in practice. Suppose that, despite having frozen the rates of basic services, the firm earns a rate of return over 50%. Can the regulator credibly claim that it will be able to resist political pressures to have the frozen rates cut in half? Similarly, if the firm finds that it is unable to raise sufficient capital to maintain service quality under the agreed upon rates, can the regulator credibly insist that it won't revise the rates upward? If the answer to these questions is no, then the regulator and the firm are back at square one. For, if the social contract fixed rates are to be adjusted, they must be adjusted on some basis of reasonable cost, and that is what rate of return regulation is all about.

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* When consumers and investors are the same individuals, as in a cooperative, this "contract" can be viewed as the governing rules of the organization itself. Regulatory procedures established by an external authority are not required.

Finally, it is not inconceivable that a LEC and its regulator may find a social contract proposal that they both prefer to the status quo. After all, rate of return regulation is an imperfect and costly process. However it is important to keep in mind that the term contract connotes a voluntary agreement between two parties. It would be a serious error to force a social contract upon a state's RTCs merely because, for example, its BOC was willing to accept low basic rates in exchange for unrestricted diversification opportunities.

The Department of Justice's recent report to Judge Greene illustrates the need to bear in mind that regulatory arrangements that may be acceptable or desirable to the BOCs do not necessarily represent appropriate policies toward the RTCs. The report links the prospect of removing the restrictions on BOC provision of interLATA services to the removal of all regulatory barriers to intraLATA competition.* In my opinion, this policy would constitute a powerful incentive for the BOCs to join those calling for the total deregulation of all telecommunications markets. Whatever the merits of such a policy in densely populated urban areas, it would be a disaster for the RTCs and their customers. The removal of a legal monopoly franchise does not automatically eliminate the technological natural monopoly, and associated policy problems, that brought it into being in the first place.

VIII. Conclusions and Policy Recommendations

(1) Franchise monopolies of the RTCs should be retained. This policy tool has served the nation well in telecommunications and other natural monopoly industries. States should not authorize facilities-based common carrier competition within the service area of a RTC. In my opinion, this is the only way to ensure that efficient, monopoly provision of local exchange services continues in rural areas. It is also the most practical solution to the problem of obtaining the revenue contributions necessary to provide the access subsidies required to maintain the commitment of universal service for RTC subscribers.

(2) Facilities-based intraLata toll competition should be prohibited in the service areas of the RTCs. There are three principal reasons for this recommendation: (i) it is likely that intraLATA toll service exhibits significant natural monopoly characteristics in the sparsely populated areas served by the RTCs. Thus, just as in the case of the local exchange, the possibility of wasteful duplication and stranded investment threatens the

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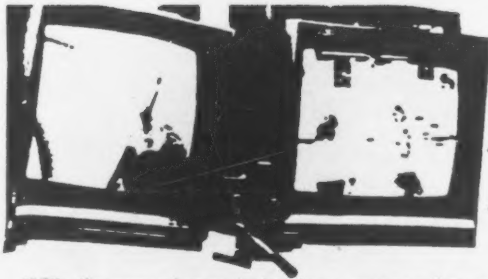
* The Report and Recommendations of the United States Concerning the Line of Business Restrictions imposed on the Bell Operating Companies by the Modification of Final Judgment, February 2, 1987, states (pp. 101-102) that "When a BOC demonstrates the absence of legal barriers to competition, the decree prohibition on its provision of interexchange service to or from such 'unrestricted' LATAs should be lifted immediately. As long as these barriers are not reimposed, the BOC should be permitted to provide interexchange services that both originate and terminate in unrestricted LATAs."

efficient provision of telecommunications services. (ii) Even when competition is not actually wasteful, it is not necessarily desirable. To the extent that competition in intraLATA toll markets drives price to marginal cost, it eliminates the contributions that economic efficiency would dictate that those services make toward recovery of the NTS costs of providing local exchange service. For the RTC to continue to cover its total costs, this would necessitate raising access and local service rates, making universal service more difficult to achieve or sustain. (iii) Creamskimming is likely to be a severe problem, especially when rate averaging is maintained. Competitors will serve only the relatively high density, low cost routes, leaving the low density, high cost routes to be served (probably at a loss) by the provider of last resort: the RTC. This would make the cost recovery problem discussed above even more severe.

(3) In those situations in which competition in interstate and/or intrastate interLATA competition is mandated by federal or state policy, the RTCs should be given complete flexibility to negotiate individualized contracts with large users in order to retain their interexchange traffic. While the end result of this process may not lead to much contribution toward the recovery of NTS costs, at least it would help prevent the wasteful duplication of facilities and stranded investment.

ATTACHMENT C



Telcos and Schools: Partners in Progress

With the use of new technology, cooperation between small telephone companies and local school districts can lead to economic development in rural America.

By Will Kitchen

America's rural communities are facing increased challenges to provide equitable services and economic stability. Geographic distances, isolation, shrinking population bases, and even inadequate telecommunications infrastructures and related services are all obstacles that rural communities must overcome to attain economic and educational parity with urban areas. As a result, rural communities are placing more significance on *cooperation*.

Cooperatives, of course, grew out of rural America. But now cooperative ventures may help rural areas compete with urban communities in the arenas of economic and educational development. Moreover, the cooperative philosophy can help achieve progress without compromising the special identity of rural America.

Today, a unique cooperative concept is emerging between two important rural resources—public school systems and telephone cooperatives. Rural school districts can cooperate with other regional school districts to share limited financial and educational resources. State curriculum mandates, lower funding levels, and limited staff make it difficult for rural school districts to provide equitable and comprehensive educational opportunities to the areas they serve.

At the same time, the evolution of America's economy from manufacturing to information and services presents another obstacle to rural economic development. Businesses in the information sector are expected to create most of the new jobs in the future, and *all* businesses are becoming more dependent on telecommunications technologies for communications and information distribution. However, many existing rural telecommunications infrastructures may lack the capability to transmit cost-effective, high-speed and high-volume audio and video data.

Thus, a potentially inadequate telecommunications infrastructure, combined with the lack of educational opportunities and resources, emphasizes the need for rural educators and telcos to join together. Such cooperation means sharing telecommunications networks to provide educators with an alternative delivery system for two-way, interactive television to interconnect multiple school districts. In addition, this cooperation can provide rural telcos with an opportunity to upgrade their infrastructures and become an important force in local economic development. By forming a unique, mutually advantageous, business-education partnership or cooperative, both parties share the cost and the use of the system. To understand how such partnerships or cooperatives work, it is helpful to examine two recent fiber-optic projects in Minnesota.

The MSET Project

The first fiber-optic telecommunications partnership formed between a rural telco and a consortium of school districts began in 1985. NTCA-member Upsala Telephone Cooperative (Upsala, MN) and Mid-State Educational Telecommunications Cooperative (MSET) joined forces to link seven central Minnesota school districts together on a fiber-optic network. (See the *NTCA Exchange*, August 1986.) Upsala and MSET constructed a 78-mile fiber-optic network consisting of four to eight fibers. The system, which has been operational since January 1986, links together school districts in Holdingford, Little Falls, Long Prairie, Pierz, Royalton, Swanville, and Upsala. The distances separating the towns range from 10 to 18 miles, and the Upsala co-op provides only two of the communities (Upsala and Swanville) with telephone service.

Using Pirelli Optronics analog transmitters and receivers over MSET's two fibers, the network provides seven video channels—one for each school district. Upsala Telephone Cooperative uses the other two to four fibers and will upgrade its system to carry all of its long-distance toll calls to an AT&T switch.

Transmitting one channel of video (with audio) from each high school, and with the capability of each high school to receive all of the other six schools' signals simultaneously, this system offers an educationally effective and accepted alternative method of delivering distance education. These systems, called two-way, interactive television, afford an opportunity for small, rural school districts to share and offer low-incidence and new courses in their curricula. A teacher in one district can now teach a class in which students may be located in three different high schools. Using television cameras and monitors and a microphone system in each classroom, the teacher can see and hear all of the students, the students are able to see and hear the teacher, and all of the students can see and hear each other.

The MSET project, in which district student populations range in size from Upsala's 444 to Little Falls' 3,086, is currently delivering 16 different high

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The Process Approach to Telecommunications Development

Phase I – Feasibility Study (4–8 months)

Technical

- A. *Technology Introduction*
  - Definitions
  - System expectations
  - Examples of operational systems
  - Arranging visitations to systems
- B. *Resource Assessment*
  - Local assessment of technology resources
  - Identification of potential technology partnerships
- C. *Technical Design Options*
  - Developing several designs
  - Providing estimated costs & capacity
  - Narrative descriptions/comparison of options
  - Outline of financial options
  - Estimation of construction, operations, and maintenance budgets

Educational

- A. *Educational Applications*
  - Overview of effective uses
  - Educational expectations
  - Examples of operational systems
  - Arranging visitations to systems
- B. *Needs Determination*
  - Assessment of educational needs & strengths
  - Assistance in data comparison
  - Facilitation & development of educational organization structure
  - Evaluating cooperation activities including schedules, policies & curriculum
- C. *Staff Development*
  - Teacher workshops & in-service programs
  - Development of staff training models

Phase II — Implementation of Study (Daily Basis)

Technical

- A. *Finalize Technology Design*
  - Solidifying financial options
  - Finalizing engineering design
  - Finalizing technology partnerships
- B. *Finalize Technology Partnerships*
  - Development of contractual agreements
  - Facilitation of working arrangements
- C. *Develop All Bid Specifications*
  - Location of vendors
  - Preparation of all necessary documents
- D. *Evaluate All Bid Documents*

Educational

- A. *Short-Term Educational Planning*
  - Policies, staffing, curriculum, and system uses
  - Facilitation of planning for first year of operation
- B. *Strategic Long-Term Planning*
  - Assistance with grants applications
  - Assistance with legislative lobbying
  - Assistance with curriculum development
  - Project evaluation
- C. *Locate and Design Interactive Classroom*
- D. *Provide Teacher Training*
  - Presenting training for selected teachers

Phase III — System Construction (Daily Basis)

Technical

- A. *Coordination of Materials Delivery*
  - Check-in, inspect and deliver all technology materials
- B. *Coordination of Construction*
  - Oversee all construction
- C. *System Activation*
  - Evaluation of system

Educational

- A. *Provision of Special Presentations*
  - Staff, school boards, community, government officials, etc.
- B. *Classroom Wiring & Construction*
  - Preparation of interactive classrooms
- C. *Prepare Classroom Equipment Bid Specifications and Order Equipment*

school courses in their first year of operation. The courses being offered include:

Spanish I
(two classes)
German II
Accounting II
(two classes)
Advanced
Computers
Music Theory
German I
(two classes)
French I
(two classes)
Advanced
Placement
English
Computer Logic
Shorthand

Thus far, the MSET system has fulfilled a traditional educational objective: the extension of the classroom to remote areas. The promise of fiber optics, however, has led to some grand thinking by school administrators. In addition to the possibility of linking area schools, system educators see potential applications in facsimile transmission, computer data, and other sophisticated communications—in short, much more than simply extending the classroom.

In addition to the high school classes, the system offers adult community education classes; staff programs; interdistrict meetings; and other similar programs. In the future, college classes for community residents, school district staff, and high school students also will be available.

The Tri-County Project

Another cooperative project under way is the Tri-County Telecommunications

Cooperative in Grand Rapids, Minnesota. The parties involved in this project include:

- six school districts (Coleraine, Deer River, Grand Rapids, Hill City, Nashwauk-Keewatin, and Remer);
- two community colleges (Hibbing and Grand Rapids);
- a Minnesota-based long-distance carrier (U.S. Link);
- an independent telephone company (People's Telco) and four NTCA member systems (Arvig Telephone Company, Johnson Telephone Company, Northland Telephone Company, and Paul Bunyan Rural Telephone Cooperative).

When completed, the network will include 140 miles of fiber-optic cable of 8 to 12 fibers. Telephone and educational uses will be similar to the MSET project, except that the Tri-County network will enable U.S. Link to offer long-distance service as an alternative to AT&T, which is now the only interexchange carrier in the area.

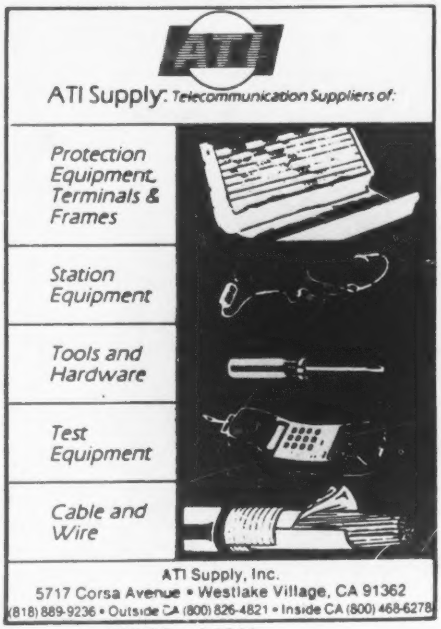
The telcos and school districts will share the costs of the fiber and the construction. However, a local foundation may provide a grant to finance a major portion of the initial construction. The proposed partnership calls for the schools to own the rights to at least two of the fibers. The telcos, meanwhile, would own or lease the remaining fibers for telephone traffic. Maintenance of the system will be the responsibility of the telcos on a time-and-materials-only basis. The first 18 miles of the system have already been constructed between Hill City and Remer; the rest of the network should be completed this year.

Moving Forward

While fiber optics is the choice of MSET and Tri-County, education-telco partnerships can select other technologies, including microwave, coaxial cable, and satellite. Schools and telephone cooperatives may be able to share microwave towers or reach maintenance agreements for existing or future educational telecommunications systems. In other instances, telcos could be contracted by the schools for engineering work or to assist in obtaining rights-of-way for stringing wire between school districts.

Fiber-optic technology is preferred because it lends itself well to two-way interactive television systems. Fiber offers high channel capacity and can contribute to a community's economic development by providing a state-of-the-art telecommunications infrastructure for information-based businesses. Fiber-optic costs for electronic equipment and cable also are very competitive and offer an alternative to twisted-pair copper and microwave.

Without question, the time has come for business/education telecommunications partnerships in rural America. These partnerships can provide hope to rural communities by becoming catalysts for economic growth and development. With such joint ventures and networks in place, rural communities will enjoy educational and telecommunications services that rival those in urban areas. The partnership between school and telco represents a major step toward meeting the needs of the citizens of rural America.



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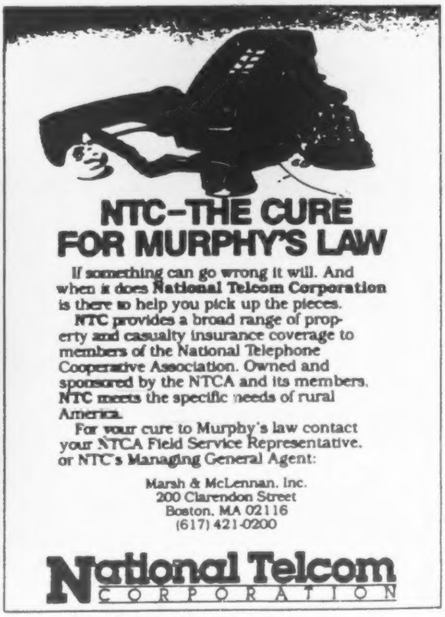

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